

SCIENTIFIC  
MARKETING MANAGEMENT

ITS PRINCIPLES AND METHODS

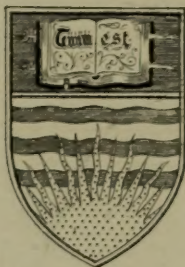
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MARKETING MANAGEMENT

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AND METHODS





# SCIENTIFIC MARKETING MANAGEMENT

*Its Principles and Methods*

BY  
PERCIVAL WHITE  
*Marketing Counselor*



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SCIENTIFIC MARKETING MANAGEMENT

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## PREFACE

THE primary purpose of this book is to set forth the principles of modern scientific marketing, as far as it is possible to expound them at this stage of their development. A secondary purpose is to describe a system of marketing for the guidance of individual companies. The undertaking was inspired by Frederick W. Taylor's books on scientific management.

An apology ought, perhaps, to be made for applying the word "scientific" to the system of marketing described and advocated in this book. There are many features about the system which can hardly be called scientific, even in these days when the word "science" is so loosely applied. Its aim, however, is always scientific. The development of procedure is based upon the same principles of efficiency and economy which have been employed in other fields of activity.

It should not be supposed that any book can describe a system of marketing which will prove adequate to the problems of every business. No such attempt is made here. The introduction of the system must follow upon a thorough survey of the company's needs. This volume aims to indicate the principles and the general procedure of scientific marketing, rather than to demonstrate how they should be applied to specific cases. Actual citations of current practice have, however, been used throughout the text; first, because this is the most effective way of visualizing the application of the principles; and, second, because these illustrations, taken from a wide variety of sources, indicate the methods which are being used by the most progressive companies throughout the United States in their attempts to develop scientific methods of distributing their goods.

It is hoped that the word "system" as used throughout the book will not have a proprietary sound. This "system" is not the personal property of the author. It is not a patented affair. It does not aim to be original, nor can it properly be called so. It is simply the logical outgrowth of conditions. It is a development of forces which have been generated as the result of

## PREFACE

certain prevailing business circumstances and needs. The "system" is built upon conditions as they exist rather than as they ought to be. It consists of the application to these conditions of principles which are widely accepted as sound, and which, through a long period of trial in other departments of business activity, have proved tenable.

Furthermore, the changes which will result from the introduction of this system are believed to be inevitable and capable of being forecast. They should be regarded as effects which are bound to follow upon certain causes which are already operative. Some of the elements of the functional system of marketing herein described are to be found in practically all modern sales organizations, while in the best of organizations many of the elements may be seen in a fair state of development. But nowhere, as far as can be observed, is this system to be found operating in its complete and fully developed form.

The excuse, if an excuse is needed, for presenting a "system" is that most people prefer a system to a set of principles from which the system may be evolved. Few minds are stimulated by generalizations, to the extent, at least, of weaving them into a pattern of practicable utility. But many minds react strongly to a concrete, definite, clear-cut plan, which can be put into practice without much difficulty, or modified so as to eliminate the features inapplicable to the case in hand.

The author wishes to thank the many contributors to this volume. Their names appear throughout the text. Special acknowledgment is due to Walter S. Hayward, who is responsible not only for many of the creative ideas, but also for a large amount of the actual presentation.

PERCIVAL WHITE.

New York, February, 1927.



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# PART I

## INTRODUCTION

### CHAPTER I. THE WASTE OF MARKETING

*If marketing were carried on efficiently, there would be no need to control it by better methods. But this is not the case. Marketing, as practiced to-day, is characterized by numerous unnecessary wastes. Since these wastes are of fundamental importance, they are discussed at the outset.*





# SCIENTIFIC MARKETING MANAGEMENT

## CHAPTER I

### THE WASTES OF MARKETING

THERE are greater wastes in marketing than in any other form of business activity. Total sales in the United States have been estimated at a minimum of \$500,000,000,000 per year. Our total national wealth in 1922 was figured at \$353,000,000,000. That is, the annual turnover in sales is greater than the capital of the country as a whole.

War has long since been declared on the wastes of production. Yet these wastes are of secondary importance. Before they can be eliminated the losses in marketing must be reduced, because marketing is primary and all production depends ultimately upon the demand of the market. Mass methods of manufacture, with scientific management of men and machinery, can succeed in reducing the cost of production, but savings made in this way are to an extent neutralized as a result of distributive confusion, destructive competition, and unorganized marketing procedure. It is useless to turn out huge quantities of merchandise at unbelievably low costs if it must be forced upon consumers by means of double-distilled salesmanship and super-advertising. There is no limit to the amount of energy which can be and is being expended in promotional methods today. But beyond a certain point, all of this is waste, for which the consumer pays.

The advocates of super-selling and super-advertising have convinced themselves that, were it not for their efforts, costs to the ultimate consumer would be much greater than they are now. They are doing their best to convince the consumer also of the truth of this statement. Large sums are expended for the services of men who, through extraordinary personal force, succeed by dint

of unabashed persuasion in "unloading" or "dumping" the products of quantity production. The eventual, though remote, result of this state of affairs will be for the condition to remedy itself, if only through an increasing sophistication of those against whom these "campaigns" are launched. But, in the meantime, a costly and useless burden is being carried by the consumer.

**Types of Marketing Waste.**—The striking thing about marketing wastes is that so little is heard about them. Pains are taken to apprise the public of marketing successes. These are heralded from the housetops. But what about the textile manufacturer in New England who distributes to western Massachusetts through his Chicago wholesaler? What about the tennis-racket manufacturer who is cajoled into spending a large proportion of his capital in advertising his product before it has even been brought to a state of mechanical perfection? What about the axle manufacturer who goes in for the building of lift trucks merely because he happens to need one of these trucks in his own plant? What about the manufacturer of a technical product, with not over 2,000 prospects, who buys blank space in a medium boasting a circulation of 2,000,000? What about the food manufacturer, with a highly localized clientele, who endeavors to obtain "national distribution" merely by using national advertising? These marketing wastes are seldom publicly discussed, constituting, as they do, a reflection upon the intelligence of the American people.

Marketing wastes may be classified in various ways. Fig. 1 shows them grouped under three headings:

1. Those due to distributive confusion.
2. Those due to destructive competition.
3. Those due to company mismanagement.

Much attention has been directed against the first class of waste. There has been a general cry of "too many middlemen" and "too many retailers." Yet this type of waste is more or less incidental to the evolution of an efficient distributive system. The functions of marketing must be performed, whether by middleman or by the producer himself. If the middleman cannot perform his functions efficiently and at a less cost to the consumer than can the producer, he will eventually disappear. In some lines he has already disappeared. The wastes which occur in this classification, although temporarily great, are largely transient.



The wastes due to destructive competition are more serious, especially in view of the fact that competition is the avowed basis and guiding principle of our economic structure. Americans have been brought up to believe that free competition is essential to the

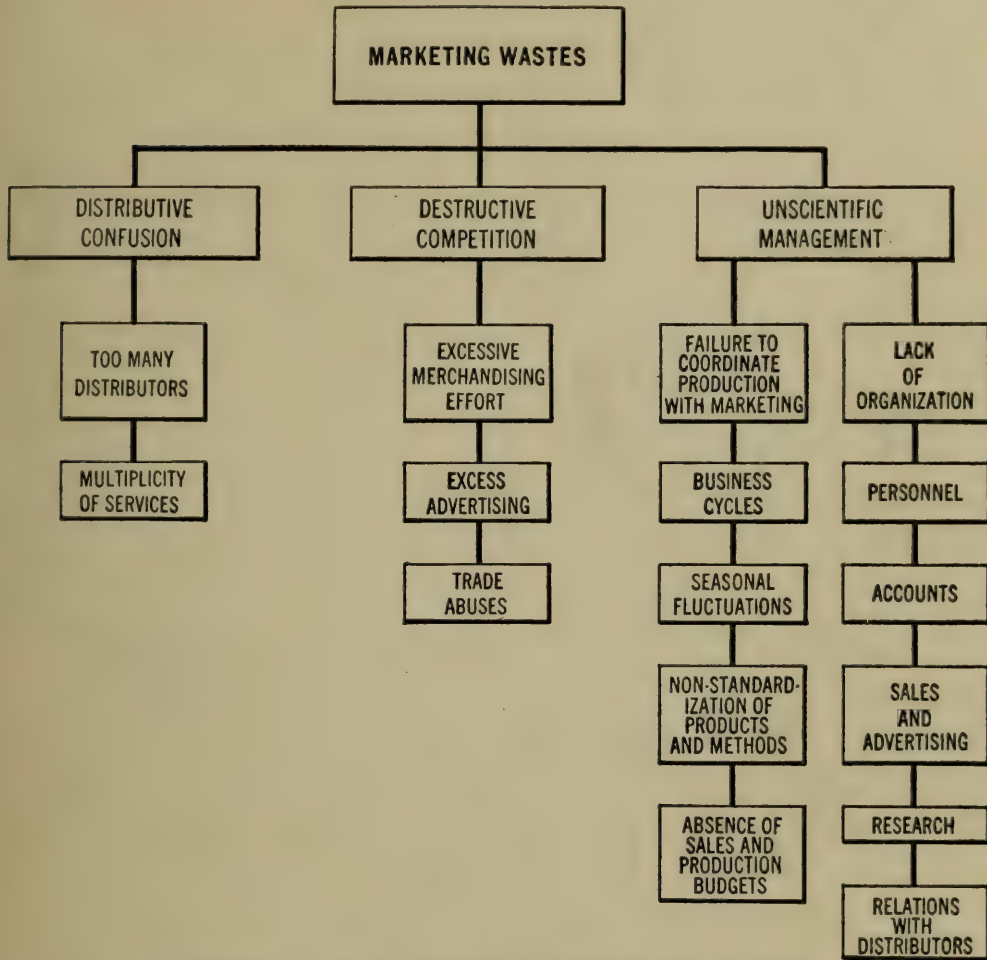


FIGURE 1. THE PRINCIPAL MARKETING WASTES

The wastes of marketing may be divided into three main classes: First, those due to distributive confusion, second, those due to destructive competition, and lastly, those due to lack of scientific management. These various wastes result mainly from a lack of data, a lack of understanding of marketing principles, lack of coordination between the various business activities, and failure to functionalize marketing as has been done with production.

welfare of the consumer. Free competition, however, even if it be thought justified, is not an unalloyed blessing. It brings with it high-powered salesmanship, advertising expenditures without economic justification, duplication of services, and divers trade abuses and unethical practices.

The wastes of mismanagement are traceable chiefly to four factors:

1. *Lack of Information.* Business management has had no adequate facts relating to markets upon which to base judgments and decisions. It is only within the last few years that market research has become a recognized element in sales procedure. This lack of facts has made it necessary to make decisions empirically. There has been no rational coordination between supply and demand. The business cycle falls upon most business men almost as though it were an act of God. Seasonal recessions have been regarded as inevitable as day and night. Standardization of productive effort upon a few sizes, styles, types, or units has been held impossible, because there has been no information upon which to base schedules. Sales statistics have seldom been kept; if kept, they have not been made use of. Cost accounting as applied to sales activities has been one of those unrealizable desiderata which serve as topics for class-room discussion, but which are rarely put into practice by business men. Like the donkey between the bales of hay, most executives hesitate, afraid to relinquish the old procedure, reluctant to embrace the new.

2. *Lack of Understanding.* Even today, few business men really understand the principles of marketing. Their ears are attuned to the jargon of the factory. They conceive it as their primary function to serve the needs of production. If the ungrateful consumer does not buy, he must be dragooned into purchasing, or cajoled with tempting appeals, or inveigled by means of credit schemes. Although the principles of marketing have been analyzed and codified, the seller does not learn them, nor does he realize their importance. He must educate himself in the economics of marketing before he can comprehend the present state of business affairs and the ills which he has fallen heir to.

3. *Failure to Functionalize Marketing.* Because he has had no facts, because he has not understood, and because of inertia, the business man has failed to divide the tasks of marketing into their constituent parts, as he has done in the case of production. Division of labor has been applied to marketing on the basis of chance and guess, rather than on that of scientific test. There has been a further reason for failure to functionalize their marketing: many companies have allowed it to be handled entirely by outside agents and professional marketing representatives. In order



that they might turn their attention more completely to the problems of production, they have deliberately delegated their marketing tasks to outsiders. When they began to discover that the effect of this policy was to separate them effectively from the consumer, they turned again to compete for his favor with the agencies which they had been instrumental in setting up. The result has been waste—tremendous waste—which can be overcome only by functionalization.

4. *Failure to Coordinate.* Partly because of the failure to functionalize its activities, there has been little coordination between the various departments of the ordinary manufacturing concern. Advertising has been carried on largely as a separate activity, thrown out on its own, as it were, and left to shift for itself. Production has not been coordinated with demand or with impending business conditions. When marketing resistance has been met with, there has been no search for the cause, but merely an added pressure to overcome the increased resistance, whatever its nature. There has been no recognized planning function, calculated to draw together all the various marketing activities and fuse them into a single concerted program. A marketing campaign often has been allowed to progress without definite objectives. Thus a company finds it has spent thousands of dollars in distributing and forcing an unsatisfactory product upon a reluctant market; or that it has wasted a small fortune in advertising its product in sections of the country where it has no distribution; or that it has made some other blunder which a little prevision would have avoided.

**Distributive Wastes.**—The Joint Commission of Agricultural Inquiry, after an exhaustive analysis of marketing and distribution, concluded that the conveniences of modern distributive services had made the costs of distribution greater than those of production. It pointed out how wastes occurred in the assembling, grading, transporting, and distributing of agricultural products. It demonstrated that a surprisingly large proportion of the population was engaged in the services of distribution of goods from producer to consumer.

The Bureau of Census reports 334,212 retailers of groceries in its last available report, or an average of one grocer for each 72 families. In this line alone, therefore, there appears to be a considerable multiplication of distributive agencies. While groceries



are, for the most part, necessities, hence requiring a ready means of dispersion, it is evident that the consumer is paying for a duplication of services. Such duplication constitutes a marketing waste, which is traceable mainly to the desire, or perhaps the necessity, for the manufacturers of food products to force the sale of their goods. In no other way would it be possible to explain the financing (often unprofitable) of jobbers by manufacturers and of retailers by jobbers.

B. F. Yoakum, formerly Chairman of the Board of the St. Louis and San Francisco Railroad, and an authority on distribution, estimates that it costs \$2 to distribute foodstuff, including cost, profits, and commissions, to every \$1 paid the producer. He quotes specific examples of the over-supply of distributors.<sup>1</sup> Hartford, Connecticut, for instance, with a population of 138,000, has 1,000 food dealers. Estimating that each dealer employs four others besides himself in selling, delivering, and bookkeeping, there is one person engaged in retailing food to every 28 of city population.

Out of every dollar which the consumer pays for bread, it is estimated that half goes for the cost of distribution. In return for this the consumer gets fresh bread daily, and he seems to be willing to stand the expense to him of the services which enter into this distribution. But is it worth his while to have 63 cents of his dollar go for the cost of distributing corn flakes? Is he justified in paying a premium for having Kellogg's Corn Flakes or Post Toasties forced upon him? The consumption of cereals of all kinds is limited, while, as the Joint Commission points out, the supply is well in excess of its needs. Manufacturers spend excessive amounts to create brand acceptance. Every normal person knows what breakfast cereals are. But this is not enough. He must be hammered into buying one brand rather than another. The retailer must be stocked, willy-nilly. The wholesaler must give cooperative assistance. The consumer is told that his health, his proper nourishment, the activity of his brain, the pleasure of his children, depend upon his buying one brand rather than another. And for being taught this lesson he pays accordingly.

**Competition.**—The consumer is apt to look upon competition as his guaranty of fair prices; the manufacturer regards it

<sup>1</sup> *Nation's Business*, November, 1923.

as a destroying angel. The latter may, as the Standard Oil Company did in the days when trust was a word to shudder at, ruthlessly stamp out rival concerns. He may combine with others of his ilk to obtain market control. In considering marketing wastes, it is important to note that most business combination is with a view to monopoly of markets rather than monopoly of production. This was true of Standard Oil, of the steel corporation, of the automobile mergers. It is a conscious or unconscious recognition that the market is dominant. To serve the demon "mass production," markets must be obtained, larger markets, markets farther away from home, markets of any kind which will consume what the factory organization is pleased to turn out.

As a result of this situation, unfair trade practices spring up and legislation is passed against them. Legislators attempt to define competition and then to hold it true to its definition. A Federal Trade Commission is set up to watch over business. It is a sort of Cerberus of competition. The manufacturer, seeing his retail prices cut, tries to sustain them by fair means or foul. He practices discrimination between buyers, establishes a system of espionage, and in other ways obstructs free competition. This the Federal Trade Commission forbids him to do. The government is in a state of sustained nervous anxiety to preserve a proper balance between a dearth of competition and an excess of it.

The public conception of competition is changing from year to year. The day is coming when it will be impossible, for example, to have two competing public utilities, such as telephone systems, serving the same area. A definite market monopoly is assigned to public utilities by franchise, the control of rates and finances being reserved. When it is a question of production or distribution, however, unfettered competition is regarded as essential. As Mr. Hoover remarks, competition implies that "we must maintain a sufficient number of independent units in any given industry to assure us that the fundamental competition is sustained."<sup>1</sup>

**Super-salesmanship.**—This book will have a great deal to say, first and last, of the evils of super-salesmanship. In a

<sup>1</sup>"Some of the Currents of Development in American Business." Address by Herbert Hoover, Secretary of Commerce, before 14th Annual Meeting of Chamber of Commerce of the United States, Washington, D. C.



later chapter will be shown how such tactics are against the true interests of the seller as well as of the consumer. High-handed merchandising methods are probably the greatest single element among all the varied and complex wastes in the distributive process.

National distribution has long been a fetich among many manufacturers. It has been regarded as an essential correlative of mass production. Great sums of money are spent in obtaining distribution in districts far from home. In many cases, such distribution, when finally achieved, is maintained only at a loss. The customary method of obtaining national distribution is by means of super-salesmanship. Space is bought in national periodicals (these being the sponsors of the fetich); specialty sales forces are dispatched to strategic points; an offensive is opened upon local distributors; samples are showered broadcast. The campaign is on. Naturally, competitive sellers who are already entrenched in the territory immediately take steps to protect what they regard as their "vested interests." A struggle ensues. Whether or not the new aspirant for national distribution obtains his desire, the public pays the bill.

Super-salesmanship is a powerful weapon in experienced hands, and a fascinating weapon to wield. The harm it does is seldom evident upon the surface, nor is it ever measurable in exact terms. The seller, even though he may deplore the necessity of resorting to intensive methods of selling, is often forced to do so. He may even find that it is not enough to make a good product, since it may not be able to cope with the products of competitors who use strong-arm methods. He, therefore, must also, for the time, use these same methods, or a modification of them.

Department stores at one period in their history were advocates of super-salesmanship. They sponsored this practice just as long as the consumer would tolerate it. When they discovered their claims were not believed, they made an abrupt *volte-face*. The mail-order house passed through a similar phase. So did the chain store. Department-store competition today is based upon price and quality. Chain-store and mail-order competition rests upon the same foundation. All of these large-scale retailing units advertise, but this is, in the majority of cases, price



advertising. Manufacturers are loath even to mention prices for fear of comparison. But few manufacturers are good merchants.

It cannot be long before manufacturers see that the interests of the consumers are their interests also, and that super-salesmanship is outworn. Some of them, with unusual prescience, have already seen the handwriting on the wall and are reorganizing their marketing activities in accordance with the true requirements of the consumer.

Super-salesmanship, like many another evil, tends to stamp itself out of existence. Super-salesmanship is in part responsible for the remarkable, but little known, developments in buying, such as are exemplified by the so-called resident buying organizations of New York City. In such a *milieu* the super-salesman finds himself surrounded by opponents with impregnable defenses.

Another significant reaction against super-salesmanship is the tendency towards "hand-to-mouth buying." This is the custom of purchasing in the smallest possible lots, and to reject price inducements, quantity discounts, and other wiles of high-pressure selling. The small-order tendency is a distinct advance over the previous method of overloading the buyer, even though now opposed vehemently by the manufacturer who considers that his interests should take precedence over those of the consumer.

Finding himself balked by the well-armored and professionally trained buyer, the super-salesman has turned to the ultimate consumer himself, and has devised two new methods of attack: These are house-to-house canvassing and installment selling. Both of these stratagems betoken efforts on the part of manufacturers to employ super-salesmanship as a remedy for overproduction.

**The Constructive Aspect of Salesmanship.**—But salesmanship is a force which can be beneficially applied. Production, as will be urged by many, cannot wait upon demand. If it were not for salesmanship, they claim, the almost universal distribution of articles valuable and useful to mankind would be indefinitely delayed. There is no attempt, however, in this volume to decry the value of salesmanship as an informative and educational force. The selling function is and must remain an integral part of the process of distribution. It is not even

denied that on occasion demand may be forced with benefit to the consumer, as in the case of new products like the washing machine and the radio. The demand for such products is latent and must be awakened.

When it is claimed, however, that the high costs of selling are invariably justified by the ends attained, exception must be taken. The constructive emphasis in salesmanship—that is, its informative and educational aspect—is apt to change into a mere instrument of competitive aggression. Salesmanship becomes a precision tool which pries sales reluctantly from an unwilling clientele. If direct methods fail, then every argument is brought to bear to effect the sale, regardless of the true criterion—the good of the consumer.

Admittedly, the line of demarcation between constructive and destructive salesmanship is not clearly established. It is all but impossible to say to what degree salesmanship is justified. But salesmanship has been abused and it has long since abandoned its true and economic sphere of utility. To encompass it within its legitimate boundaries is no easy task; and the only method of accomplishing it is by salesmanship itself—that is, by selling the idea of constructive salesmanship to those who practice the old method, by showing them that super-salesmanship is destructive and is tearing away the foundations upon which true salesmanship rests.

**Wastes in Advertising.**—Committee III of the National Distribution Conference concludes that there are five principal causes of waste in advertising, as follows:

1. Chiefly, the lack of coordination between advertising and the other phases of the business—production, distribution, finance.
2. Inefficient use of space. Too much or too little. Failure to study space requirements and repetition requirements.
3. Poor and ineffective copy.
4. Use of wrong media.
5. Excessive use of advertising in extremely keen competition.

The Committee goes on to say that, although there are large wastes in advertising, yet it is impossible to get any exact data regarding such waste.



Fred E. Clark, an authority on marketing, makes an eloquent defense of advertising in the *American Economic Review*.<sup>1</sup> He summarizes criticisms of advertising under five heads:

1. It is expensive and socially wasteful.
2. It tends to emphasize the purely acquisitive feature of business.
3. It tends towards the individualization of products, and so increases the cost of distribution.
4. It increases the demand for luxuries, variety, style, and creates fictitious values.
5. The ineffectiveness of much advertising, and the uncertainty concerning the results, cause waste for the advertiser and so for society.

He concludes that if advertising causes distribution costs to mount this increase must be ascribed to competition, but that any waste due to this has been more than offset by the positive economic benefits resulting from advertising's contribution to regional division of labor and large-scale production. This, like all questions of this nature, is a matter of personal opinion.

From the point of view of marketing, the wastes in advertising are of two kinds: first, those due to mismanagement of the advertising function, and second, those due to competition, and consequent misuse of the advertising function. Scientific marketing aims to do away with both these wastes; the former by a better understanding of advertising procedure and correlation with other sales efforts through functionalization; the latter by setting up more enlightened principles of salesmanship. Advertising is once more reduced to its natural function of giving information rather than of serving as weapon of cut-throat competition.

There are, of course, proper and necessary uses for weapons. But as yet there is little attempt to divide advertising into its constructive and destructive elements. As everyone points out, it is extremely difficult to measure advertising results, except in terms of good will, which is an intangible thing, or in terms of consumer acceptance or "recognition," which is equally intangible. The whole question of manufacturers' brands hinges on the value of competitive advertising. It has come to be almost

<sup>1</sup> Vol. XV. no. 1, Supplement, March, 1925.



axiomatic in some industries that the firm which does not advertise will drop out of the race.

There has been a deal of advertising propaganda intended to make it appear that the consumer pays no more for the advertised product, or even that he pays less, and that he is a brighter, busier American for having been advertised to. Yet it is only necessary to examine the tremendous volume of business done by the chain-store grocery systems on their own private and unadvertised brands to reveal the limitations upon this claim. These private brands (except when the manufacturers' brands are sold as loss leaders) are offered at a lower price, value for value.<sup>1</sup>

**Lack of Scientific Management.**—The wastes hitherto enumerated have been due to conditions beyond the power of any one concern to rectify. Each must suffer in company with all the rest. However great the marketing wastes due to the aforementioned causes—and they are admittedly great—there is a waste more culpable because it can be corrected and because it is now laid as a direct tax on the consumer in the form of higher prices. This third cause of waste is due to lack of scientific organization and management of the marketing functions.

Company wastes may be divided into two parts. The first and more serious one results from failure to coordinate production and marketing (*i.e.*, manufacture and sales). It is the inevitable consequence of an ignorance of marketing principles. It is due also in part to the prevalent conception that production is the basic activity and that marketing is merely the handmaiden of production. It is hard for business men to divest themselves of the belief that markets will be found once the goods are produced.

In this class of waste occurs the business cycle, which descends upon the average business with the abruptness of an earthquake. The warning signs have not been heeded, because the average manufacturer is primarily a producer and not a marketer. He bewails his disrupted schedules, his canceled orders, the plight of his unemployed. Yet he fails to see that the remedy lies in a study of market conditions.

<sup>1</sup> For further evidence, the reader should consult the literature of advertising, which has been created largely by manufacturers who advertise and by those who sell them advertising. This literature tells one side of the story. The other side will be made clear by an interview with the Merchandise Manager of a department store, or by an examination of the catalogues and the profit-and-loss statements of the mail-order houses.

To a less degree, seasonal wastes occur. Because the effects and causes are more patent, more has been done for their relief and correction. Then again, in the matter of standardization, the war taught a useful lesson in the way of reducing styles and sizes.

The second main division of wastes due to company mismanagement is the failure to functionalize marketing activities. It is in this sphere of marketing that the company has exceptional opportunities to reduce waste, because it controls all the necessary factors for doing so. By setting up a scientific form of organization and procedure it can train its personnel to be more effective, it can control its expenses by knowing its costs, it can extend credit on a basis of fact, and it can modify its policies of super-salesmanship and unsound advertising. The result will be reduced costs to the seller himself and a reduced price to his customers. The principal aim of this book is to tell how this end can be accomplished.

With conditions as they promise to be for some years to come, it is not to be expected that marketing will prove reducible to the almost machine-like system which characterizes manufacturing. Marketing has always been dependent to a great extent on emotion, and emotion cannot be dealt with effectively by any cut-and-dried system yet developed. Advertising indicates, however, that some possibilities lie open in this direction and that a system which is in effect almost entirely mechanical is capable of dealing with emotions and of stimulating them effectively.

**Business Conditions.**—The publicity which has been given in recent years to the subject of business conditions and the fluctuations which occur in them at periodic intervals has been of great benefit. Marketing as a whole can never be put on a scientific basis until such information is general and until more business firms practice business forecasting. Among economists, the question of over-production has long been a subject of discussion. David A. Wells, a well-known economist of the last century, wrote of over-production, which he ascribes to “an excess of progress or enterprise.” He pointed out that it was formerly believed a lowered margin of profit would reduce production, but that now over-production evidences itself in “excessive competition to effect sales.”<sup>1</sup>

<sup>1</sup> David A. Wells, *Recent Economic Changes*, New York, 1898, pp. 73-75.



The business man is no better off because of a boom, since deflation must inevitably follow. Yet it is hard to persuade him to study the market and production statistics which alone will give him the necessary information as to the state of business. With seasonal changes the business man is more familiar. He has grown to expect a slump at certain times of the year, and often he has taken steps to get another product to fill in off periods, or he has offered special price discounts during dull periods to move his product and thus make production more uniform, or he has manufactured staple articles for stock after having figured out what the annual demand is. In other words, when deviations in business activity occur at known times and in fairly certain amount, he is able to take steps to cope with them. A scientific system of marketing makes provision for study of market conditions and insures correlation of company activities with business activity in general.

**Standardization.**—Attempts at standardization and simplification at first appear opposed to the fitting together of the product and the market. To some extent there is an antithesis between these two aims. As the opponents of standardization point out, most markets demand a certain amount of variety. Most markets, on the other hand, call for only a scattering and comparatively insignificant amount of product individuality. In general, the standardized article is preferred by most persons for most purposes, for the obvious reason that it is better and cheaper. Differentiation of designs and multiplicity of sizes, styles, and numbers, tend to raise the price level of all the products in any given class.

Although the setting of standards is a distinct advance towards reducing marketing wastes, there is and should be diversification in style goods and specialties.

There are innumerable examples of what companies have gained through simplification. A manufacturer of men's clothing cuts his lines in two and immediately increases his profits. A shoe manufacturer limits his production to a few staple styles and finds his selling problems made easier, because he can pass on to the consumer the saving in cost. There is little doubt that this country is gradually going back to price merchandising. The keenness of competition for available but limited markets makes this inevitable. The sooner useless and uncalled-for eccentricities



of production are eliminated, the sooner will manufacturers be able to reduce their costs.

Under the present method of intensive selling, the pressure upon the factory to turn out new varieties and styles is exceedingly great, because by having something new to show the buyer, whether or not its novelty serves any useful end, the super-salesman's task is made easier. As long as a novelty supplies talking points, competition is the more readily dealt with, for the salesman can employ all his guile. Unless the elements of newness are sound and worthy, however, the advantage is but temporary. The consumer will be dissatisfied. The seller will sacrifice both prestige and profit.

The wastes of useless diversification are eliminated by scientific marketing. Market research indicates the requirements of consumption, both actual and potential. The manufacturer need no longer torture his imagination or resort to his overworked guessing ability in order to devise new ways of tickling the consumer's fancy. He can determine by methods of some precision what will sell, and can thus eliminate risk and worry.

**Lack of Marketing Organization.**—So far as the individual company is concerned, marketing wastes can be eliminated or reduced to a small percentage by proper organization. This does not imply the necessity, nor the desirability, of eradicating "personality" from the marketing process; in fact, this will probably always play a dominant part. But the same principles of organization which have reduced production costs can be applied to marketing, resulting in even greater economies. A method of procedure founded on a knowledge of costs will in the long run eliminate super-salesmanship and uneconomic advertising, and it will inaugurate those staff departments which will furnish the essential information for operating efficiently.

The average company, as now organized, encourages marketing wastes. Because it has no adequate knowledge of costs, it embarks on many unprofitable plans. Because it has no adequate knowledge of the market, it stresses the wrong appeals, strives to enter the wrong fields, adopts the wrong objectives.

In many cases, a company is ready to pay an excessive price to gain the consumer's favor. It grants ruinous credit terms merely because its competitors do the same. In desperation, it launches marketing "offensives," laying down a barrage of adver-

tising, sending out scouting parties of specialty and missionary salesmen, issuing a flood of hortatory messages from headquarters, hanging out flags of victory when quotas are passed. Yet when the shouting is over, what has been gained? A temporary sally which has increased sales, but the expense of which has more than offset the added profits. Another conquest for super-salesmanship and marketing waste.

\* \* \*

A suitable program of marketing reform, even if applied only to individual companies, by educational methods, and had to do only with their own problems of management, would—

1. Make the consumer's lot easier and less worrisome.
2. Reduce the cost of living.
3. Increase the profits of the enterpriser.
4. Reduce the speculative risks of business.
5. Conserve enough wealth through the elimination of marketing wastes to wipe out all taxes.

In the next few chapters the causes for the present situation are traced and various remedies considered. The body of the book is devoted to a description of how the principles of scientific marketing may be applied to the problems of the individual company.

## PART II

# THE PRESENT SITUATION IN MARKETING

CHAPTER II. MARKETING AND THE PUBLIC

CHAPTER III. MARKETING AND THE ENTERPRISER

*The thesis of this book is that the beginning and the end of all marketing problems is the consumer. The consuming public is therefore discussed at length, in order to make clear the present situation in its broader aspects. How the requirements of the consuming public are catered to by business constitutes the other half of this problem, and this subject is treated in the second chapter of this section.*





## CHAPTER II

### MARKETING AND THE PUBLIC

MARKETING as it exists today can be understood only when it is examined in the light of its historical aspects. It represents the undirected effect of economic pressures on a distributive structure which grew up to the needs, not of quantity production, but of production on a small scale. Its evolution has not progressed further because so far it has been able to carry out the distributive function, although in a wasteful and costly fashion.

The marketing wastes described in the previous chapter ultimately have had to be assumed by the consumer. These wastes are paralleled by marketing abuses—that is, deliberate attempts to take advantage of the present system at the expense of the consumer. These abuses have aroused the attention of the public. General discontent with the distributive situation, although quiescent when business is good, is ready to break out into a demand for reform the moment conditions become depressed.

The remedies suggested are legion. Distribution has become not only a social question, but also a political and legislative one. The true remedy, however, will probably never come from outside. It must evolve from within, as it inevitably will when public pressure becomes strong enough. The process of change, already apparent, goes on slowly because of the inertia which must be overcome.

The functions of distribution, as they have developed, are considered by most economists to be fundamentally sound; the fault lies in the method of carrying them out. The National Distribution Conference concluded that “the essential distribution functions now performed by various agencies are fundamental and none may be eliminated, but must be assumed and continued by others if present agencies are replaced by new methods.” As these conclusions fail to state, the true remedy for the situation lies in the application of those universal principles which govern

the conduct of any business enterprise or activity. What is chiefly required is a clear conception and definition of these principles and some intelligence in applying them. Unfortunately, neither the conception nor the intelligence is yet widespread.

**The Historical Retrospect.**—In the Colonial era this continent served primarily as a market for English manufactures, and, in return, as a source of her raw materials. Hence American industries were mainly of a household character, the bulk of manufactured goods and luxuries being English-made. The rigid mercantile system, whereby colonies existed only for the use and profit of the mother country, was the cause of much protest. Yet it is interesting to note how loud was the cry which went up when, as a free country, we were shut out from the trade which, as an English dependency, we had enjoyed. The eventual result was that we turned increasingly towards internal development and a seemingly inexhaustible market.

The great era of expansion, lasting from 1820 till 1870 or later, was one of feverish production. New England embraced the factory system with open arms, forsaking her run-down farms for the spindle and the loom. It mattered little what the costs of production were, as long as the goods were made. The advancing frontier took care of them all. From the fifties on, the rising tide of immigration swelled demand. The producer, who had hitherto been his own marketing manager, intrusted the functions of distribution to the wholesaler, being forced to turn all his attention to the business of production.

In some industries, the course of a few generations brought the transformation from handicraft to factory system. This was the case, for example, with the shoe industry. In every instance, the moment factory organization was completed the producer tried to find somebody else to assume the marketing functions. His only thought was for production; his marketing was incidental and haphazard. Hence arose such intricate systems of distribution as are still to be found in the textile industries.

With the completion of the great railroad network, in the eighties, the whole country virtually lay open as a market for the domestic enterpriser. The great decade of competition set in, directed at control of this broad market. Trusts came into prominence. There was the Standard Oil Company, which was considered a "bad trust," and the United States Steel Corporation, coming some



years later, which was considered a "good trust." Both organizations incidentally made their profits, not from production economies, but from marketing economies.

Public opinion, which in the beginning had favored the attempt of the enterpriser to control markets, at the end of the century swung into opposition. The word "trust" became an epithet of reproach. The basic principle of business was to be "free" competition. Legislation was called in to regulate trusts and to define marketing ethics.

At the present time, an era of collective action seems to be starting. Marketing is becoming more and more a cooperative affair. Trusts are becoming pools; there is a recognition by producers that they have a mutuality of interest, and that this mutuality of interest is largely concerned with markets. Indeed, all the great commercial struggles which have taken place have been primarily concerned with markets. The aim now is to find some method of maintaining free competition while at the same time obtaining the benefits of mass production.

**The Present Marketing Situation.**—Marketing, as a whole, is in a high degree of confusion. Here and there, however, developments are appearing which indicate a tendency to reduce it to an orderly basis. Scrutinizing the great marketing systems, one finds:

1. In agriculture there has been a tendency towards cooperative marketing, along the lines of the Danish cooperatives. That is, cooperative organizations are formed for one product only, such as cranberries, or oranges, or grapefruit, or raisins. Binding contracts are made for the production of individual farms or orchards over a term of years. A marketing expert is hired to conduct the marketing campaign. Instead of disorganized and haphazard effort, resulting in waste and added cost to the consumer, marketing is placed upon an orderly and economical basis.

2. In the field of raw materials, where markets are relatively fixed, there is a demand in some quarters for government ownership, notably from the strong labor organizations. In some cases, such as aluminum, there is presumably a monopoly control which artificially raises prices to the consumer. In general, the raw-material situation is unsatisfactory.

3. In regard to technical products, the trend has been towards

giving greater service and the establishment of competition upon a service and price basis. The situation here is better.

4. As for products for consumer use, manufactured on a quantity scale, there is a mad scramble among producers to force goods on the consumer by means of high-pressure merchandising. It is here that the greatest opportunities exist for marketing savings.

5. In the retail system there has been a pressure from the manufacturer and from the large-scale retailer, both working to obtain control of the consumer market. The manufacturer has developed brands at great expense to himself and to the public. The large-scale retailers have largely succeeded in eliminating the middleman as far as they themselves are concerned, and have insisted, not without success, in pricing goods to suit themselves rather than to please producers. They buy where they can get goods to the best advantage, and merchandise mainly on a price basis. In the retail field marketing is more efficient than elsewhere. Here, functionalized processes are rapidly being perfected.

**Marketing Abuses.**—Competitive selling in a market where one seller's gain is another seller's loss has brought about a condition where, as Veblen aptly remarks, "any device or expedient which approves itself as a practicable means of cutting into the market, on the part of any one of the competitive concerns, presently becomes a necessity to all the rest, on pain of extinction."<sup>1</sup>

Committee II of the National Distribution Conference has listed the causes for trade abuses as follows:

1. Fluctuations of prices.
2. Lack of sound business methods.
3. Marginal and "fly-by-night" business.
4. Fluctuations in style.
5. Discrimination among customers.
6. Trading on good will.
7. Retaliation for past injuries.
8. Expansion of business.
9. Lack of standard practices.
10. Lack of standard products.

<sup>1</sup> Thorstein Veblen—*Absentee Ownership*.



11. Lack of machinery for adjusting disputes.
12. Deliberate and habitual dishonesty.

Practically all of the above causes are due to lack of a proper conception of marketing, and the failure to provide a suitable organization therefor.

Cancellations and returns are outstanding trade abuses. Distributors at times place orders with several manufacturers, later canceling all but the most advantageous orders. When prices decline, buyers return merchandise purchased at high prices and purchase elsewhere at lower prices. Dishonest claims are made, and these are given as excuses for returning goods. In style lines, if goods do not sell, they are often returned to the manufacturer. Retailers ask credit of the manufacturer for goods which have been turned back by consumers without valid excuse, the manufacturer thus bearing the burden. Some retailers, when "overstocked" through the efforts of specialty salesmen, turn surplus goods back to the jobber. That is, salesmen who persuade buyers to take more than they can dispose of are often responsible for returns. Manufacturers have been guilty of sending goods not ordered, or goods in excess of orders, in the expectation that the dealer will take them and dispose of them.

The pressure of competition makes substitution extremely tempting to the manufacturer, especially when there are no hard-and-fast standards. Shirts are marked "Imported English Broadcloth" when in reality the material is of domestic manufacture.

Commercial bribery undoubtedly exists on a large scale. Commissions are paid to those in charge of buying to secure orders. Buyers are often indirectly bribed through entertainment and gifts of various kinds. There are many other charges made against the buyers, such as requests to sell at an especially low price on the pretense that a bargain sale is to be held, and then marking up to regular prices, thus permitting an excessive and illegitimate profit.

Losses due to credit frauds are estimated by the American Institute of Accountants at \$160,000,000 annually. Other estimates are higher. These range over a wide field. In some trades, antiquated credit policies, such as paying annually or semi-annually, still continue. This is the case with the hardware trade in rural



districts. Trade discounts are often taken when they are unjustified. Cash discounts are taken after the time limit has expired; quantity discounts are taken when amounts bought are under the limit; retailers take the jobbing discount.

It is common practice to make demand for concessions further than those included in the original agreement. There are often demands for excessive service. Contracts often contain "joker clauses."

Manufacturers are frequently charged with violating their exclusive agency agreements by selling to their agents' competitors. Rebates are sometimes paid to avoid any appearance of special favor to certain customers. Large buyers are favored at the expense of smaller buyers in the matter of deliveries.

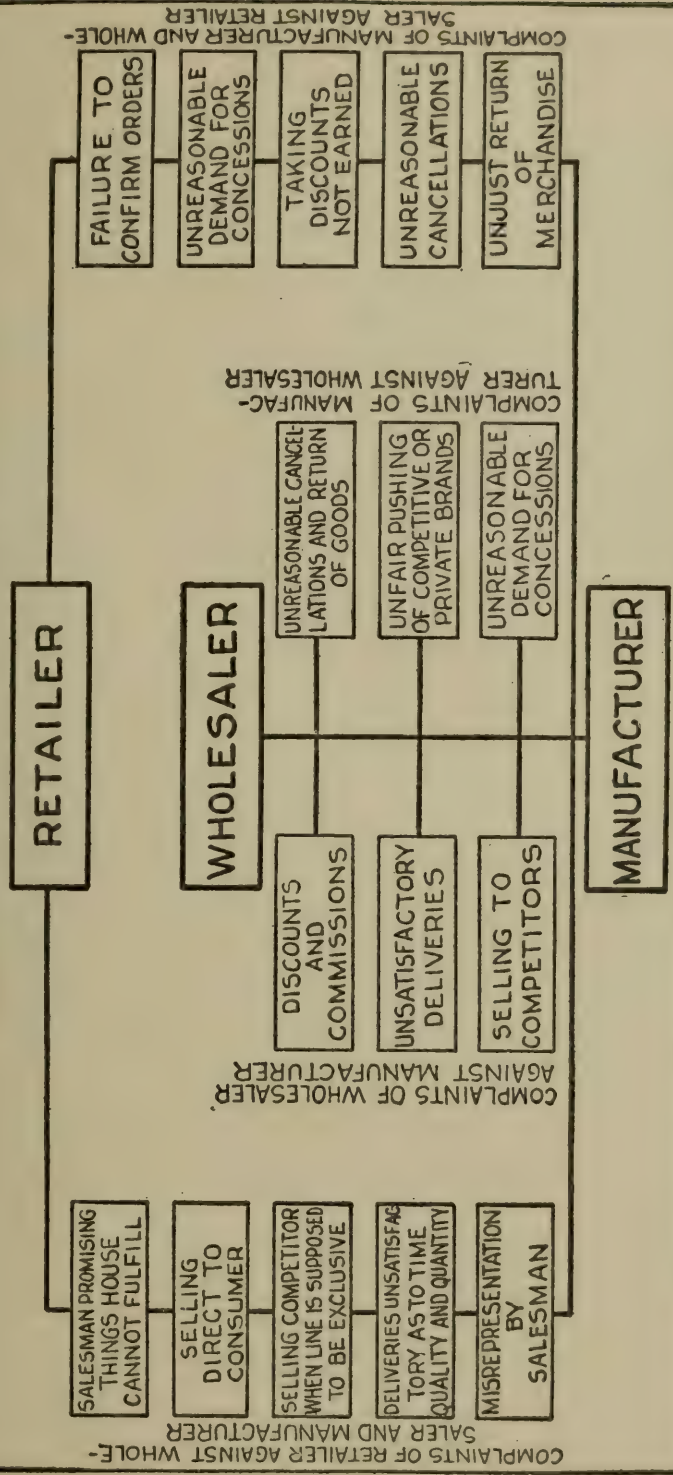
Fig. 2 illustrates graphically the main causes for disputes between manufacturer, wholesaler, and retailer which have given rise to the various trade abuses enumerated above.

**Remedies for Trade Abuses.**—There are several reasons why trade abuses have been so prevalent. In the first place, an abuse must ordinarily become somewhat flagrant before a remedy can be evolved to eliminate or repress it. It must make its baneful influence felt somewhat broadly in order to arouse sentiment against it. Many trade abuses have been kept secret, either through fear of the effects of disclosure or through the belief that the conditions are inevitable and the game must be played as it is.

The remedies for the marketing situation are broadly of two kinds: First, those which may be applied from outside of business, whether of a legislative, political, or social nature, and, second, commercial remedies, such as the inauguration of trade ethics by trade associations composed of the more influential and powerful integers. The social remedy is the most effective, perhaps, but it is the slowest to take effect. Public opinion is not readily aroused, but once it is kindled, the evil in question can be eradicated. If public opinion is indifferent, legislative remedies can be but halfway effective.

Those who look askance at plans for installing a scientific marketing organization may advisedly review the rapid changes which have taken place in marketing practice during the last thirty or forty years. It has been comparatively recently that there has been any weakening of the *caveat emptor* attitude formerly assumed by merchants of all kinds.

# CAUSES FOR DISPUTES BETWEEN MANUFACTURER, WHOLESALER AND RETAILER.



ADAPTED FROM CHART PUBLISHED BY THE DOMESTIC DISTRIBUTION DEPARTMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES. THE CAUSES FOR DISPUTES HERE LISTED WERE OBTAINED FROM THE PAMPHLET "THE BUYER AND THE SELLER" ISSUED BY THE JOINT COMMITTEE ON TRADE RELATIONS WHICH LISTED COMPLAINTS AGAINST TRADE PRACTICES OBTAINED IN A COMPREHENSIVE QUESTIONNAIRE CONDUCTED FOR THE JOINT COMMITTEE ON TRADE RELATIONS BY MR. O. E. KLINGAMAN.

FIGURE 2. TRADE ABUSES

A great deal of marketing waste results from the unsatisfactory relation of retailer, wholesaler, and manufacturer. Each tries to take every possible advantage of the other, and each regards the unethical practices of the other as the root of all evil. The various trade abuses, as enumerated above, result in losses which must ultimately be paid for by the consumer.



The legislative remedy, as applied by the Federal Trade Commission, has undoubtedly been of great benefit in reducing trade abuses and defining unethical practices. Its effectiveness, however, is determined by the backing given to its decisions by the public.

Commercial remedies are to be seen at their best in the formation of trade ethics by associations of sellers, or the publication of an ethical code by individual business houses, as well as by a strict compliance with the dictates of these codes.

**The Legislative and Political Remedy.**—The twentieth century has been marked by a continued trend towards protective legislation. Government has concerned itself with the morals, the health, the education, and finally the business relations of its citizens. In each case, government interference has been motivated by public opinion, aroused by the existing state of affairs.

Government regulation of marketing activities rests primarily on the Federal Trade Commission Act of September 26, 1914, and the Clayton Act, passed on October 15th of the same year. The Federal Trade Commission is given authority to do various things. In the first place, it can prohibit unfair methods of competition in national trade, and, to do this, it must construe the definition of the courts as to what unfair competition consists of, which is, in itself, no mean task.

In the second place, it can prohibit agreements in restraint of trade or creating a monopoly, which again entails the definition of what constitutes such an agreement. It can also prohibit arrangements made to create price discrimination.

By placing the administration of the government's activities in the hands of the Federal Trade Commission, although final appeal to the courts is allowed, the process of obtaining relief is much expedited. By using what is known as a "trade submittal" it obtains the consensus of opinion in a given trade as to what constitutes undesirable practices therein.

The activities of the Commission to date have covered a wide field. It has proceeded in many cases in regard to claims made in advertising which were not true, especially specific claims which constituted misrepresentation. It has had much opportunity to decide on matters of price protection, as in cases where manufacturers have attempted to make it illegal for the retailer to cut



the prices which they have set. If the manufacturer sells to agents, thus retaining ownership of the goods until they pass into the hands of the consumer, there is no trouble. If, however, sales are made through independent distributors, any attempt on the part of the manufacturer to control resale prices is held to be an agreement in restraint of trade. The manufacturer may refuse to sell to any retailer who deliberately cuts prices, but if he employs methods of espionage to determine whether the prices are being cut, or if he refuses to supply goods unless a pledge is made that prices will not be cut, he is acting in restraint of free competition. Furthermore, open-price plans, whereby trade associations send at stated times exact prices and discounts to members, is held to be opposed to free competition.

The Commission sometimes finds it difficult to make decisions when they are on the border line between justifiable cooperation and unwarranted restraint of trade. But there are other simpler cases. For example, it is illegal for a manufacturer to require an independent retailer to stock his goods to the exclusion of those of his competitors. The manufacturer sometimes gets around this proviso by supplying retailers with sales equipment which can be used only in selling his own goods.

The most important phase of the Commission's work is not to be found in the specific decisions which it formulates, but in its progress in building up trade standards. If these standards are based on sound grounds, it is probably only a question of time before the Commission will not be required to go to any great expense in enforcing them. A body of trade ethics may be expected to grow up which, although the power to enforce them will still lie with the Commission, will, in practice, be enforced by the opinion of the trade itself.

**Trade Ethics.**—Even more important than the police power of an official body is the attitude of the individual elements which are concerned. For example, among the most highly developed ethics in the merchandising world are those of the large general mail-order houses. These institutions, in effect, guarantee the satisfaction of the customer in every possible way. They accept returns of merchandise without question; they describe their goods accurately; they price them at a level which often brings a substantial saving to the consumer. But they pursue these policies solely because of economic necessity. A high

KEY TO COLUMNS:-  
 1-RELATIONS BETWEEN MANUFACTURER, WHOLESALE AND RETAILER  
 2-CANCELLATIONS OR THE RETURN OF GOODS  
 3-DELIVERY AGREEMENTS  
 4-COMMERCIAL BRIBERY

5-UNIFORM CONTRACTS OF SALE  
 6-UNIFORM CREDIT PRACTICES  
 7-STUDY OF COMPLAINTS WITHIN THE TRADE  
 8-ARBITRATION OR ARBITRATION MACHINERY

ASSOCIATIONS	SUBJECTS	1	2	3	4	5	6	7	8
AMER ASS'N OF WHOLESALE OPTICIANS		x			x		x		
AMER DENTAL ASS'N		x					x	x	x
AMER FRUIT AND VEGETABLE SHIPPERS' ASS'N		x	x	x		x	x	x	x
AMER HARDWARE MFRS ASS'N		x	x				x		
AMER DATED AND BULD ASS'N							x	x	x
AMER NATL RETAIL JEWELERS' ASS'N		x	x	x	x		x		
AMER SPECIALTY MFRS ASS'N		x	x	x					
AMER SPICE TRADE		x	x	x		x	x		x
AMER WALNUT MFRS ASS'N		x	x	x	x				x
AMER WHOLESALE GROCERS' ASS'N		x	x	x	x	x	x	x	x
ASSD DRESS INDUSTRIES OF AMERICA		x	x					x	x
ASSD VARNISH TRADE		x			x				
ASSN OF ELECTRAGISTS						x	x		x
ASSN OF ICE CREAM SUPPLY MEN		x			x				
ASSN OF KNIT UNDERWEAR MFRS		x	x	x			x		
AUTOMOTIVE EQUIPMENT ASS'N		x	x		x		x	x	x
CENTRAL SUPPLY ASS'N (PLUMBING SUPPLIES)		x	x	x	x		x		
CONVERTERS' ASS'N		x				x	x	x	x
COTTON YARN MERCHANTS' ASS'N		x	x				x		x
ELECTRICAL POWER CLUB		x			x				
GAS PRODUCTS ASS'N		x			x				
GRAIN DEALERS' NATL ASS'N		x	x	x		x			x
INTERNATL ASS'N OF GARMENT MFRS		x	x	x			x		x
INTERNATL ASS'N OF MILK DEALERS		x			x			x	
IOWA CONCRETE PRODUCTS ASS'N		x			x				
MERCHANTS' LADIES GARMENT ASS'N		x	x					x	x
MILLERS' NATL FEDERATION		x		x	x	x			
MISSOURI VALLEY TENT AND AWNING MFRS ASS'N		x			x				
MOTORCYCLE AND ALLIED TRADES ASS'N		x	x	x			x		
NATL-AMER WHOLESALE LUMBER ASS'N		x	x	x		x			x
NATL ASS'N OF FARM EQUIPMENT MFRS		x	x				x		
NATL ASS'N OF HAT MFRS		x	x	x	x		x		x
NATL ASS'N OF ICE CREAM MFRS		x			x				
NATL ASS'N OF MAPLE DEALERS		x				x			x
NATL ASS'N OF MEN'S STRAW HAT MFRS		x	x	x	x		x		
NATL ASS'N OF OXY-CHLORIDE CEMENT MFRS		x			x				x
NATL ASS'N OF RETAIL CLOTHIERS		x	x	x			x	x	x
NATL ASS'N OF RETAIL GROCERS		x	x				x		
NATL ASS'N OF STATIONERS, OFFICE OUTFITTERS AND MFRS		x	x	x	x				x
NATL ASS'N OF WASTE MATERIAL DEALERS		x	x	x			x		x
NATL BASKET AND FRUIT PACKAGE MFRS ASS'N		x	x			x	x		
NATL BOOT AND SHOE MFRS ASS'N		x					x		x
NATL COMMERCIAL FIXTURES MFRS ASS'N		x				x			
NATL CONFECTIONERS' ASS'N OF THE UNITED STATES		x	x				x		
NATL COUNCIL OF LIGHTING FIXTURE MFRS		x						x	x
NATL FOOD BROKERS' ASS'N		x				x			x
NATL HARDWOOD LUMBER ASS'N		x	x	x		x	x		x
NATL KNITTED OUTERWEAR ASS'N		x	x	x			x	x	x
NATL LEAGUE OF COMMISSION MERCHANTS OF THE UNITED STATES		x	x	x			x	x	x
NATL LEATHER AND SHOE FINDERS' ASS'N		x	x	x	x		x		
NATL PAINT OIL AND VARNISH ASS'N		x					x		x
NATL PEANUT BUTTER MFRS ASS'N		x	x	x	x		x		
NATL RESTAURANT ASS'N		x	x	x	x		x		
NATL RETAIL HARDWARE ASS'N		x	x	x			x		
NATL SCHOOL SUPPLY ASS'N		x	x				x	x	x
NATL SHOE RETAILERS' ASS'N		x	x	x				x	x
NATL SLATE ASS'N		x					x		x
NATL WHOLESALE GROCERS' ASS'N		x	x	x		x			x
NATL WHOLESALE MEN'S FURNISHINGS ASS'N		x	x	x	x		x		
NORTHWESTERN LUMBERMEN'S ASS'N		x	x	x	x		x		
RETAIL BAKERS ASS'N OF AMERICA		x	x	x		x			
SILK ASS'N OF AMERICA		x	x	x		x		x	x
SOUTHERN SUPPLY AND MACHINERY DEALERS' ASS'N		x							x
STEEL BARREL MFRS ASS'N				x		x			
UNITED STATES INDEPENDENT TELEPHONE ASS'N		x	x		x		x		
UNITED WOMEN'S WEAR LEAGUE OF AMERICA		x	x	x	x		x	x	x
WESTERN RETAIL IMPLEMENT AND HARDWARE ASS'N		x	x				x		

THIS TABULATION IS BASED UPON AN ANALYSIS OF THE CODES OF ETHICS OF 67 TRADE ASSNS, SELECTED FROM THE BOOK OF THAT NAME BY EDGAR L. HEERMANCE TOGETHER WITH A FEW OTHER SOURCES. THESE CONTAIN RULES OF PRACTICE OF PARTICULAR INTEREST TO THE COMMITTEE B OF COMMITTEE II. THESE FIGURES ARE TYPICAL BUT BY NO MEANS COMPLETE BECAUSE OF THE LIMITATIONS OF

SPACE. MOST TRADE ASSNS HAVE ADOPTED RULES OF A GENERAL NATURE WHICH RELATE TO ETHICAL PRACTICES OF THE 67 ASSNS. SELECTED- 64 HAVE SPECIAL PROVISIONS FOR THE RELATIONS BETWEEN THE MANUFACTURER, THE WHOLESALE, AND THE RETAILER. 43 HAVE ADOPTED A STANDARD OF PRACTICE TO-

WARD CANCELLATIONS AND RETURN OF GOODS 34 HAVE PROVISIONS FOR TERMS OF DELIVERY AGREEMENTS 27 HAVE REGULATIONS RELATING TO COMMERCIAL BRIBERY 17 PROVIDE FOR THE USE OF UNIFORM CONTRACTS OF SALE 42 ADOPTED UNIFORM CREDIT PRACTICE 18 HAVE CENTRAL ORGANIZATIONS TO ACT UPON TRADE COMPLAINTS 35 HAVE ARBITRATION MACHINERY OR ADVOCATE ARBITRATION FOR THE SETTLEMENT OF DISPUTES

FIGURE 3. A GENERAL SUMMARY OF TRADE ASSOCIATION PRACTICES

The above tabulation shows how many of the trade associations are taking up specifically the various trade abuses which exist in their ranks, such as cancellations, commercial bribery, credit abuses, and the other causes for dissension between manufacturer, wholesaler, and retailer.



standard of ethics with the mail-order house is the only possible alternative.

The movement towards higher ethics goes by almost imperceptible degrees from the cases just quoted, where ethics is an integral part of the business policy, to the cases where ethics is only beginning to replace the old *caveat emptor* policy. The "truth in advertising" movement has not only succeeded in eliminating a great deal of advertising fraud, but it has also accomplished much by toning down exaggerations of the truth which were made as the result of high-pressure competition.

A great many trade organizations have prepared codes of ethics and standards of practice to which their members agree to adhere. Fig. 3 is based on an analysis of the codes and standards of practice of 400 trade associations. In making up these codes, trade customs are often of very great importance, and constitute the basis of practice. It also happens that codes are sometimes formulated solely from the point of view of the members of the industry and without adequate cognizance of the importance of treating the consumer ethically. In fact, the majority of these codes of ethics regulate the behavior of members of the industry towards one another rather than towards the public.

Where a code of ethics limits itself to statements of generalities, it cannot be expected to prove of great practical value. A definite standard must be set up to which all subscribe. Rules for guidance and control must be formulated. Nor is any code valuable (except as the expression of an ideal) unless the members subscribing to it observe it in practice. Every code should have attached to it certain penalties for non-observance.

Fig. 4 illustrates the principles of business conduct adopted by the Chamber of Commerce of the United States. This forms a general framework to which the codes of individual industries should conform in specific terms.

**The Consumer Relationship.**—A survey of the field of scientific marketing encourages an attempt to draw analogies between marketing methods and production methods. Such analogies, however, may prove misleading. For example, in production one of the most important problems is that of the relation between the employer and workman. In fact, the whole production problem revolves around this relationship. But in marketing the relationships are much more complicated because,



## PRINCIPLES OF BUSINESS CONDUCT

The function of business is to provide for the material needs of mankind, and to increase the wealth of the world and the value and happiness of life. In order to perform its function it must offer a sufficient opportunity for gain to compensate individuals who assume its risks, but the motives which lead individuals to engage in business are not to be confused with the function of business itself.

- I. The foundation of business is confidence, which springs from integrity, fair dealings, efficient service, and mutual benefit.
- II. The reward of business for service rendered is a fair profit plus a safe reserve, commensurate with risks involved and foresight exercised.
- III. Equitable consideration is due in business alike to capital, management, employees, and the public.
- IV. Knowledge—thorough and specific—and unceasing study of the facts and forces affecting a business enterprise are essential to a lasting individual success and to efficient service to the public.
- V. Permanency and continuity of service are basic aims of business, that knowledge gained may be fully utilized, confidence established and efficiency increased.
- VI. Obligations to itself and society prompt business unceasingly to strive toward continuity of operation, bettering conditions of employment, and increasing the efficiency and opportunities of individual employees.
- VII. Contracts and undertakings, written or oral, are to be performed in letter and in spirit. Changed conditions do not justify their cancellation without mutual consent.
- VIII. Representation of goods and services should be truthfully made and scrupulously fulfilled.
- IX. Waste in any form—of capital, labor, services, materials, or natural resources,—is intolerable, and constant effort will be made toward its elimination.
- X. Excesses of every nature,—inflation of credit, over-expansion, over-buying, over-stimulations of sales,—which create artificial conditions and produce crises and depression, are condemned.
- XI. Unfair competition, embracing all acts characterized by bad faith, deception, fraud, or oppression, including commercial bribery, is wasteful, despicable, and a public wrong. Business will rely for its success on the excellence of its own service.
- XII. Controversies will, where possible, be adjusted by voluntary agreement or impartial arbitration.
- XIII. Corporate Forms do not absolve from or alter the moral obligations of individuals. Responsibilities will be as courageously and conscientiously discharged by those acting in representative capacities as when acting for themselves.
- XIV. Lawful cooperation among business men and in useful business organizations in support of these principles of business conduct is commended.
- XV. Business should render restrictive legislation unnecessary through so conducting itself as to deserve and inspire public confidence.

FIGURE 4. PRINCIPLES OF BUSINESS CONDUCT

The above principles of conduct were adopted by the Chamber of Commerce of the United States in May, 1924. They serve as an excellent framework for the more specific codes evolved by industrial trade associations, pointing out, as they do, the various factors which should be included in such codes.

in addition to the employer and his salesman, there is a third party to be considered at every step, and that is the buying public. The relation between the company and the public is the most important within the range of marketing activity. The company's marketing representative—that is, its salesman—is normally only one of the links between it and the consumer. The salesman may play an extremely important part, or he may be a relatively unimportant factor. Usually, he is merely the first of a number of functionaries who operate in the chain of distribution.

It is thus apparent that the management's problem of production, wherein only a single personal relationship is concerned, is far simpler than its problem of marketing, where, at the minimum, there are three relationships. It is this greater complication which, to some extent, accounts for the lack of organization apparent in marketing, and which stands in the way of any simple, clear-cut, and easy expedient for solving the problems of marketing organization.

The consumer, once a negligible factor in the minds of sellers, is now arriving at a position of dominance. Distribution has been regarded as a problem of individual and corporate enterprise. But, as Ordway Tead points out,<sup>1</sup> "this problem will not advance an appreciable distance towards a solution until it is also viewed by business men, no less than by economists, as a national problem. And both business men and economists must come to see that the ultimate measure of success in solving the marketing problem is not alone the profits of individual corporations. It is also the extent to which the entire working population is put from day to day into possession of sufficient purchasing power to enable them to draw more fully upon the national income than they now do."

**Mass Production and the Consumer.**—Mass production, although it has brought with it lowered costs of manufacture and lowered price to the consumer, is by no means an unalloyed blessing. It has brought with it over-production on an unprecedented scale. This, in turn, has made it imperative for the producer to find new outlets, or to make them up out of whole cloth. The cost of finding or of creating markets is in some cases as great as the saving effected through mass-production methods.

<sup>1</sup> *Annals, American Academy of Political and Social Science*, September, 1924, viii, p. 264.



It is probable that the wise manufacturer of the future will get away from methods of absolute and continuous repetition, and that he will devote himself to building articles more in keeping with demand. This change will come about with the passing of the old generation of business men, who were primarily manufacturers, and with the coming of the new generation, who are primarily merchants.

There are tendencies in this direction already observable. The absolute standardization methods of the large-scale-production factory force the small competitors to specialize and to find a new ground of satisfying the consumer. Even the Ford Motor Company, the greatest exponent of mass production, found it expedient to offer cars painted in various colors. This innovation meant a considerable increase in production costs; but if an increase of this sort is offset by reduction in marketing costs, due to the fact that the automobile owner does not want simply a black car, then Ford will be as well off as before, and, in fact, better off, because of the increased satisfaction his product is giving.

The enterpriser must, of course, produce goods in quantity in order that he may produce them cheaply. But there are good reasons why quantity production should be less of a consideration to the manufacturer than it formerly was. Quantity production, in some lines, appears to be reaching the point of diminishing returns. For it seems unlikely that the producer can find an outlet, in domestic markets, at least, for the vast flow of commodities which modern manufacturing methods have made possible. Furthermore, the expenses of management mount steadily with the size of the producing establishment (beyond a certain critical size), so that the unlimited extension of manufacturing facilities brings no commensurate reduction of manufacturing costs.

**The Producer and Labor.**—The economics of business are somewhat different from what they were a decade ago as regards the attitude of the producer towards his workmen, and *vice versa*. The shift of emphasis, in the United States at least, has been from that upon industrial relations (relationship between employers and workmen) to that upon company-consumer relationship. In the past, the burning question has been between capital and labor, each side becoming arrayed against the other in an effort to



obtain ascendancy. Such a state of affairs is the natural outgrowth of any situation which creates a seller's market. This state of affairs reached its climax during the war.

Now that the buyer's market has taken the place of the seller's market, the issue between capital and labor, formerly so clear-cut and decisive, takes on a different complexion. The problem of producing goods has become of secondary importance. Being on the verge of over-production much of the time, the manufacturer no longer needs to stand over his workman with a lash. And, as long as manufacture is of necessity checked at periodic intervals, through a lack of suitable outlets, it becomes increasingly difficult for labor to bring pressure against employers.

As labor feared (though suavely dissuaded), automatic machinery, and the system which went with it, have, by a process of indirection, taken from the workman his greatest weapon, the hand tool, which, if he laid it down, formerly brought about a near-calamity. The automatic machine, turning out goods faster than they could be consumed, increased machine costs and decreased labor costs.

All this does not mean that the problems of industrial relations can be dismissed from the enterpriser's mind, but merely that they are being complicated by other factors. He finds himself dealing not with his old opponent, the employee, but with the public. The producer in earlier days stood in a position of absolute dominance. Gradually labor rose against him. Now, the consumer, hardly even recognized as being a factor in the situation, has likewise risen. He has become insistent, or at least passively insistent. The producer today is beginning to realize that he is merely the servant of a master whom he had hardly ever known, a master who, through long-suffering, demands, and can now command, the most incessant and arduous service.

**The Employee as Consumer.**—A great deal has been written about the regularization of employment, and the effect which scientific management has had and may have upon it. But there is some evidence to support the contention that scientific management in its production phase has comparatively little to do with the regularization of employment, since this is essentially a marketing problem rather than a production problem.

The producer has dealt with the workman: he is now dealing with the consumer. To some extent the workman and consumer

merge into one. A great proportion of the population falls into the class of employees, using that term in its broadest sense, and these employees are often the heads of families or otherwise in control of the groups in which they move. They constitute the consumers of the country, or a large portion of them. In other words, business is again dealing with employees not merely as workers, but rather as consumers of goods. The employee, as an employee, has fought a losing battle with capital, but as the specifier and the consumer of the fruits of enterprise he is gaining the upper hand.

The business man hence regards the public, nowadays, as a potential market for his goods rather than as a labor market. The tendency for businesses to consolidate, the formation of trade associations, and the signal success of experiments in co-operative marketing foreshadow an increasing solidarity among enterprisers. Consumers, on their side (partly through the manufacturer's own doing), have been herded into groups and classes, and there are other indications that among them also there is a tendency towards some sort of "consumers' union." In other words, there are two factions which threaten to contest for mastery in the field of marketing.

The relationship between the employer and the workman is one of bargaining. The workman is selling his labor and the employer is buying it. In this relationship, the employer is in the stronger position for, although theoretically the workman is selling his services in a competitive market and at the highest price, yet in reality he does not have at his command the facilities or the aptitude for bargaining which are a regular part of the employer's equipment. In dealing with the individual workman, therefore, the enterpriser has every advantage. It is the result of its inferior position that labor has been forced to the stratagem of "collective bargaining."

When he comes to deal with the consumer, however, the enterpriser finds the situation a very different one. Here again, it is true, he is competing with other enterprisers who are trying to sell their products in the same commodity markets, whereas, before, he was competing with them for the purchase of services in the same labor market. Beyond this point, the analogy ends. The enterpriser, when he deals with the men in the street as prospective employees, is in a position to impose his will upon

them; but, in dealing with them as buyers of goods, he is bound, under the present conditions of commerce in the United States, to accept their will or to suffer pecuniary loss. With a stabilization of industrial relations, with increasing competition in markets of every description, and with the surfeiting of consumers as a result of prosperity and over-production, the problem of winning and keeping the consumer's trade is becoming the most difficult of any which the American enterpriser has to face.



## CHAPTER III

### MARKETING AND THE ENTERPRISER

THERE are to be observed certain marketing conditions which are prejudicial both to public and to enterprisers alike. Thus, some entire industries are in bad condition due primarily to the fact that they have never devoted themselves to marketing problems. Men in these industries are past masters at manufacture. Manufacture is the element in which they live. They have inherited the tradition of fabricating goods, but beyond this their vision fails them.

The cotton industry is a case in point. The methods of marketing employed here are crude. They are inadequate to present-day requirements. Cotton men, as a class, have little understanding of marketing. They assume that their entire job is to produce yardage and to turn it over to the commission house. At this point their function, in their opinion, ceases. The failure of the cotton industry to recognize the need for developing its marketing structure is largely the reason why it operates for a considerable portion of the time at a loss. Here and there certain semi-revolutionary movements have made sporadic headway. The whole industry watches with closest attention the marketing experiments of such firms as the Wamsutta Mills, which have taken over the jobbing and distribution of their output, in opposition to all the customs of the trade and all the traditions of New England.

**Selling versus Marketing.**—In the majority of establishments little exists in the way of marketing organization beyond a Sales Department. Marketing, to many minds, is synonymous with selling. In practically every organization, marketing is built around salesmanship. It is the salesman who deserves the credit for bringing marketing to its present state of development and who is also responsible for its present state of inertia.

Wherever “go-getter” salesmanship is brought to bear upon

consumers, the tendency seems to be to increase marketing costs. Even in industry, where comparatively little salesmanship should be needed, they are also raised above their proper level. Yet the revolt against present marketing practices is being observed in many quarters. There is, for example, growing opposition to the tradition that the customer belongs to the salesman, and that the salesman should be the only point of contact with the customer. Efforts are being made to prevent the prevalent evil of the salesman's carrying "his" customers with him when going into the employ of a competitor. Although this practice has never reached in manufacturing concerns the serious proportions which it has attained in the selling of stocks and bonds (where the clientele belongs almost as much to the salesmen as to the employing house), it has, nevertheless, been one of the great evils of personal salesmanship.

Reaction is also to be seen against the time-honored custom of permitting the salesman to keep to himself the facts about the customer which should be a matter of record. In accurate, comprehensive, and up-to-the-minute form, such records should be kept in the company's files, available for instant reference. Some companies insist that the salesmen should be held responsible for the accuracy and completeness of such records.

**Super-salesmanship.**—One of the principles of scientific marketing, designated as "objectivity of demand," is often directly at variance with present practice. Twenty-odd years ago, Frederick W. Taylor stated that industry lay at the mercy of the workman. Today, industry lies at the mercy of the salesman. The modern salesman attempts first to create demand and then to satisfy it. He depends in great measure upon the power to substitute emotional for rational buying stimuli. He sets at naught the hypothesis of the classic economists that there is a point beyond which benefit to the buyer is not commensurate with the buyer's outlay.

The high cost of distribution is largely attributable to the present system of super-salesmanship. The consumer pays for "distribution," whether there is any actual distribution or not. If he *buys* an automobile instead of having to be *sold* one, why should he not save at least part of the commission of the super-salesman, and pay \$900 instead of \$1,000? Why should he pay \$100 for being persuaded that he wants one make of car rather



than another? Frequently he would seem to be paying \$100 more than the car is worth in order to help defray the cost which the manufacturer incurs in attempting to enlarge his market beyond its reasonable bounds. The manufacturer asks to be paid for operating in defiance of the law of diminishing returns.

The salesman's task is one of appealing to the most primal of human tendencies, the desire to possess. This has resulted in an enormous increase in material goods. The luxuries of yesterday become the necessities of today. Business produces in huge volume things with identical characteristics. It is necessary to find buyers with common desires, common requirements, common buying habits, and comparable pecuniary resources. Products have been standardized, and to some extent the market for them.

The salesman himself is not to blame. A condition exists which he profits by, but which he does not understand and over which he has no control. There are more goods produced than there is an active call for. The salesman, therefore, becomes a tool used to force a demand which is often based on no sound need. At its best, the efforts of super-salesmanship can be regarded merely as educational in character.

Education in the use of salable products is, of course, already being carried on by schools, colleges, and other educational institutions, thus making buyers and consumers much more critical, and quicker to see the comparative merits of goods. This form of education automatically results in weakening the force of purely competitive merchandising efforts.

**Reaction Against Super-salesmanship.**—Tendencies are on foot which may counteract the top-heavy condition of the marketing structure. The situation appears to be reaching that juncture at which sheer salesmanship will be worth less than it costs. In the highly competitive markets, the average consumer is already on the alert, quick to perceive where his advantage lies. As long as all competitors spend equally large sums for the hawking of their wares, of course all prices will tend to stand at a uniformly high level. But there is always a limit to such a condition. Some merchant eventually realizes the benefit of doing away with the inordinate cost of super-salesmanship. His marketing expenses are thus reduced, his prices become correspondingly low, and he obtains a generous share of the business. This share comes,



incidentally, from the more sophisticated and discriminating customers, though, at the same time, the more intelligent and desirable ones.

It seems strange, at first, that there is not a greater tendency than at present for companies to drop out of the fruitless race of competitive selling effort. But only the shrewdest of merchants realize the drawbacks of super-salesmanship. Business benefits are supposed to show a return proportionate to the amount of sales energy applied.

What the super-salesman sells before all else is himself—that is to say, the personification of salesmanship. He advocates salesmanship as the one way to overcome competitive obstacles. The average manufacturer has been inclined to accept this recommendation. He himself is thus the victim of super-salesmanship.

High-pressure salesmanship, although expensive, is usually considered a legitimate expense, on the theory that any expedient is defensible if it gets profitable business away from a competitor. Some business men have educated themselves to the point that they are able to formulate and ask themselves, in coherent fashion, the question: "If I should take the money that I am now putting into high-pressure selling, and apply it to certain other purposes, would it not give me an even greater advantage over my competitors?"

Marketing executives must soon be prepared to meet this question. To it there are several answers. The most obvious of these is that the money might in many cases be spent more profitably in improving the product or fitting it more exactly to the needs of the market. This would give the company a lasting, rather than a temporary, advantage.

One result of the tendency will be a reaction against mass production. The market will be the focus of the business man's attention, while manufacture will become a matter of secondary importance. It will wait upon the market, as is the normal state of affairs.

Scientific marketing adopts, in accordance with its principle of objectivity of demand, this axiom: "I will sell a man what he needs and ought to have, and I will not sell him anything else, even though he might be induced to buy." The organization of the selling is not so much changed as is the principle upon which it is based. The sales manager and the sales force will remain

as the operating mechanism, but objectivity of demand will replace super-salesmanship as the *leit motif*.

**The Enterpriser and the Distributor.**—The keen competition to find profitable outlets for mass production has resulted in what might be almost termed "civil strife" between manufacturers and distributors. The country is inundated with manufacturers' advertising, practically all designed to create brand consciousness for the manufacturer's product. The private brand in some lines seems to be falling into obsolescence. The jobber is fighting for his life, while in some fields, such as groceries, the retailer of independent status is vanishing before the tidal wave of the great chain systems.

It seems probable that there will be a reaction from the present state of affairs when manufacturers realize it is costing them more to obtain "brand consciousness" and "consumer recognition" than it is worth. They will also discover some day that "brand insistence" is an *ignis fatuus* which is eventually extinguished in the face of price competition.

There is still a place for the middleman. Jobbers can continue to carry out their normal and proper function of distributing to the public those goods which it wants, but as to the origin of which it is not particularly interested. Most manufacturers, on the other hand, who strive to have their particular brands pushed to the exclusion of other goods cannot continue to succeed in this except at unduly large expense. This expense is normally added to the price of the product. This increment, furthermore, is little more than a substitute for the consumer's own discrimination and knowledge, and for the sales clerk's demonstration.

The manufacturer of branded merchandise is incurring a heavy bill, and then insisting that this bill be met by the consumer. The consumer will continue to pay it until he begins to realize that competitive merchandise at a lower price is, in all honesty, "just as good," despite the odium which advertising has attempted to attach to that phrase.

Much is said in advertising circles, and also in the advertising press, about the value of brand consciousness and the ascendancy of advertised brands. This is an inevitable consequence of the self-interest of advertising men themselves and of those whose task it is to prepare editorial pabulum for them. Yet the fact remains that the really important functionaries of



distribution—the jobbers, the department stores, the chain-store systems, and the mail-order houses—continue to sell unbranded goods successfully and in large quantities. The distributor is not particularly interested in selling branded goods, because they bring him in less profit. This in itself is some indication that branded articles have the adherence of distributors only so long as the manufacturer forces demand on the part of the consumer.

**The Enterpriser's Incentive.**—In studying the marketing organizations of many companies in the course of professional work, I have never been able to trace a parallelism between a company's highly developed marketing organization and its profits. This might be taken to indicate, in a limited way, that a highly developed marketing organization would not, of necessity, be profitable. An equally fair deduction, however, would be that, since new movements in marketing are only just now being organized, they have not been in force long enough to bring forth fruit. The marketing organizations of American companies are notoriously unstable. It is common for them to have a "shake-up" at irregular intervals. Such travail prevents the showing of immediate and traceable profits.

The only incentive of sufficient power to make the enterpriser endeavor to reduce marketing costs is profit. The mere project of applying scientific methods to marketing procedure has no intrinsic merit in his eyes except as it may be effectual in increasing his earnings. He is, however, keenly interested in increasing marketing efficiency, especially as competition grows more intense and he is compelled to place more and more pressure behind his marketing efforts.

A certain amount of progress in reducing costs has been made by some companies; but the advance has been fitful and uncertain. Here and there, market research work has been attempted, but in good times there is no apparent need for it, and in bad times it constitutes an expense which is easily lopped off. Furthermore, as an uncorrelated activity, not forming a definite part of the sales organization, its value is not translated into concrete terms. It is considered an unproductive department, because it does not show a profit of its own.

The training of salesmen brings returns more promptly, and hence receives considerable attention, although this work rarely has been placed on a scientific basis. The planning function is



sadly neglected, executive snap judgments being depended on, in the place of decisions based on facts.

Accounting for marketing control is rapidly becoming more and more important. Service also is claiming much attention, although, unfortunately, not so much because of its intrinsic merit as because of the example of competitors.

**The Change in the Enterpriser's Problem.**—These various changes in marketing procedure have been concessions, often involuntary, to the altered problem of the enterpriser. As previously stated, the machine process as applied to mass production accounts for the present over-development of competitive selling. The Ford Motor Company offers a good example of what happens when emphasis is laid on production rather than on marketing, and of how high-handed methods of distribution fail in the end to move a product which has become out-of-date.

In the beginning, the Model T Ford car was an outstanding example of a product which fitted the demand of the market so much better than any of the competitive products that it possessed an overwhelming advantage. At that time there was no need to advertise, or to employ high-pressure salesmanship.

The product, finding enormous demand, was put into enormous production. It was marketing rather than production which was the basis of Ford advantage in the beginning, although this was not appreciated at the time, nor has the fact been properly recognized since. Until 1921, Ford had a virtual monopoly in his price class. In 1921 there was a price spread of \$453 between the Ford and the Overland, its nearest competitor. In 1926 the car buyer had 27 choices under \$1,000, as opposed to three in 1921. While the open Ford model was still the cheapest, the closed model, on which most of the business was done, was in direct competition with other makes.

As the natural outcome of Ford's initial success, production became the Ford byword. A single model of car was built, to the exclusion of all other models. Prices were so low that no one else could meet them. Ford production has been constantly increasing while prices have been coming down.

The mass-production principle, which had been one of the secrets of Ford success, now threatened to become an insidious impediment. The Model T Ford, in the course of decades, became antiquated. To change the model would have been the

logical, although an extremely expensive, step.<sup>1</sup> Instead, Ford chose to bring to bear modern high-pressure selling to take care of his constantly increasing output. He tried new body designs, this being patently a merchandising expedient. These were not received with public acclaim. He sold on installments. But others could do this as well as he, if not better. He tried advertising, and, when this failed, he condemned it as uneconomic and eliminated it entirely. Even price reductions, which had always before brought large spurts in sales, now elicited but languid response.

If Ford had spent his money in building an up-to-date automobile, instead of purchasing high-pressure sales effort for the merchandising of an inferior product, he might still be in the dominant position which, by a continuance of his present policies, he is tending to undermine.

One of the factors which Ford has failed to reckon with is the changing character of his market. At first, and for many years thereafter, his primary market was the individual who had never before owned a car. Now his great market is in replacements, and the number of Ford owners who buy other makes when they purchase again is steadily on the increase.

The present situation is one where Ford production is steadily falling off in the face of increasing discontent on the part of dealers, due partly to smaller percentage of profits than they could make on other cars, and partly to the increased difficulty of making sales. The whole automotive industry is waiting to see what Ford will do when he changes his emphasis from production to marketing, as he inevitably will when he comes to realize that his success has been built by conforming to economic principles, and not by defying them.

**Overcoming Competition.**—Ford has chosen one method of overcoming competition, a method which, while temporarily successful, is ultimately doomed to failure, and with great consequent loss in good will. There are, however, various answers

<sup>1</sup> Figures as to the cost of making such changes are not available; but they run high. The *Wall Street Journal*, in an article appearing at the time the changes were made in Ford body design, reported a delay of two weeks in production, due to a certain error in body design. "The Company ordinarily averages about \$10,000,000 a month profit," says the report, "and if production was delayed two weeks the loss from this source would run in the neighborhood of \$5,000,000."



to the problem of overcoming competition other than through high-pressure salesmanship. One of these is by a more complete development of the other marketing functions—better delivery, better service, better selection of goods, and a better price structure. These are all matters which will be discussed in later chapters.

There are also the great possibilities inherent in cooperative marketing. The advantages to the producer of farm products through cooperative marketing are self-apparent. They have been widely adopted in sections where the conditions are favorable. In foreign countries the use of the Kartel, or union of producers, for marketing purposes, is on the increase. In Germany particularly, where marketing is also a vital problem, the organization of Kartels has spread to almost every industry, with varying degrees of control. The general purpose of the Kartel is to do away with the evils of destructive competition. In this country Kartels and pools have always been frowned upon, in the belief that they were opposed to free competition. It is true, indeed, that unless they are strictly regulated the saving in marketing cost will be lost.

There is, however, another and better remedy. This lies in the more scientific management of marketing activities. Such management will produce many of the same economies which result from the Kartel, without constituting the menace to free competition which it carries. The application of such management is a logical and inevitable step. It is merely the adaptation of the same principles which have already been applied successfully to production.

**The Worker versus the Salesman.**—In drawing a parallel between production and marketing, the striking fact is that comparisons often go by contraries. One of these differences, and one that is basically important, is the relation existing between the management and the worker, in production and in marketing.

Despite all that has been said as to the community of interest between the workmen and the management, there are many times when the two sides fall asunder. One perennial issue in production is as to what constitutes a fair day's work. Management complains that labor output is too low, while labor tacitly or openly admits that restriction of output is a necessary safeguard of its interests.



In marketing, a different situation exists, as regards the company and its workers—that is, its salesmen. The remuneration of many salesmen is in direct proportion to their sales. The more the man sells, the more money he earns. He is always glad to get as many and as large orders as possible, provided it does not put him to too much inconvenience or trouble. Sabotage is unknown among salesmen. A salesman's strike is never heard of.

Why should this difference between the workman and the salesman exist? The workman likewise is paid, or may, if he chooses, be paid, in proportion to his output. Yet it has been repeatedly shown that the piece-work system, unless carefully handled, is quite as likely to bring with it labor troubles as a *per diem* rate.

This difference between workmen and salesmen is due to an inherent difference between the two types of men, and also to the difference between the conditions under which they operate. Of the two, the salesmen are usually of somewhat higher calibre. There is no real reason why it should take a better man to do selling than to engage in craftsmanship; in the past the artisan has held a position of greater dignity than the tradesman or barterer. The fact is that, with the increasing difficulty of finding outlets for goods, there has been a premium placed upon salesmanship. Salesmen are paid inordinately high salaries and, accordingly, the temptation is for the more ambitious men to engage in selling rather than in production.

Another difference between salesmen and workmen is due to the fact that it is for the benefit of the latter to work at an approximately uniform rate. Rivalry among workmen is disparaged by them. Any attempt on the part of the management to obtain higher production from the more able individuals is met with suspicion by labor leaders. No such situation exists in the sales force. The custom here is for the better men to expect and to demand exceptional remuneration for exceptional results.

Another analogy which goes by opposites, when comparing the workman and the salesman, is the position each holds during periods of depression. In dull times there is a surplus of labor. Jobs are at a premium; the enterpriser may hire operatives on his own terms. As a rule, his problem is rather one of cutting down his force without crippling it than it is to hire more workmen, even in spite of the low wage rate. In the distribution end

of business, however, the salesman is the "king pin" during dull times. His position is exactly the reverse of that of the workman. His services are more than ever in demand, or, at least, more desirable than ever. According as the salesman is efficient or otherwise during depression the company becomes prosperous or falls behind.

**A New Philosophy for the Enterpriser.**—All reform in the marketing system, of whatever kind, is bound to depend largely on the attitude which the enterpriser himself adopts. This will require a complete reversal of position from that held at present, where the enterpriser begins with his product and ends with the market. E. A. Filene, a brilliant student of marketing problems, has summed up the new attitude in a series of questions which the enterpriser should ask himself in regard to his business: <sup>1</sup>

"What article can I manufacture that will be of the greatest possible use to the greatest possible number of people?

"How can I manufacture the article so that its usefulness, its quality, and its durability will make it sell itself, as nearly as that is possible?

"How can I put into the article the qualities that will win for it the permanent loyalty of the largest number of consumers?

"How can I make the article so persuasive in its appeal that my advertising man's job will become less and less a job of argument and more and more a job of telling the public the virtues of the article, where it can be bought, and at what price?

"How can I organize my business so that I can make the article at the lowest possible cost, and with the least possible waste in man power, in materials, and in selling effort?

"How can I manage my business in order to keep the wages of my men going higher and higher and the selling price of my article going lower, so that I can be sure of a permanent and growing body of consumers who will be both *willing to buy* my article because it is useful, durable, and reasonable, and *able to buy* it because they have the money?

"What methods must I adopt in order to make it safe for me to plan on getting my profits and making my success, not from a high profit per article on a few sales, but from a low profit per article on mass sales that run into the millions?"

It is a frame of mind receptive to such questions which is prerequisite to any intelligent consideration of scientific marketing.

<sup>1</sup> *The Way Out*, Doubleday, Page & Co., 1924, pp. 196, 197.

## PART III

### REVIEW OF MODERN MARKETING

- CHAPTER IV. THE MARKETING ORGANIZATION OF THE TYPICAL  
COMPANY
- CHAPTER V. MARKETING MANAGEMENT IN THEORY
- CHAPTER VI. MARKETING MANAGEMENT IN PRACTICE

*Part Three opens with a purely objective study of the organizations of well known and successful American concerns, with emphasis upon the principles and methods which they employ in marketing. The next chapter approaches marketing from a different angle—that of showing what a marketing organization must be in order to meet the theoretical requirements of successful operation. The section closes with a review of practice, in which it is shown how the theoretical concepts are being applied to specific enterprises.*





## CHAPTER IV

### THE MARKETING ORGANIZATION OF THE TYPICAL COMPANY

MARKETING organizations of typical American companies are impressive chiefly because of the wide variety of method used in meeting given conditions, because of the instability and constant upheavals in their sales departments, because of the dissatisfaction of the personnel, because of the sway of tradition as opposed to that of reason, and because of the lack of rationale which characterizes their whole marketing attack.

There are certain factors which have exercised a determinant influence on the form of marketing organization, such, for example, as geographic conditions, product complications, and certain practical marketing difficulties. Lastly, there has been a new element injected into the situation by the call on all sides for service.

Distance at one time was the all-important factor in distribution. In many cases the cost of transportation was responsible for a majority of the cost of distribution. With the coming of the railroads, and latterly with the development of the motor truck, transportation has become a problem in planning as much as anything else. Distance, which used to mean being out of touch with the home office, is now no absolute bar to efficient decentralization of the selling function.

Product complications, which generally mean that the market is extremely diversified, demanding a wide range of goods, are more important. Even this problem offers, however, no insuperable obstacle to functionalization; in fact, it should hasten the process because of the state of confusion otherwise existing.

The various engineering and service problems connected with marketing organizations are, in themselves, arguments for functionalization, although to many they may appear as obstacles.

Only through functionalization can engineering and service be carried out efficiently.

Complication in marketing activities of all kinds is inevitable, applying equally to marketing conditions and to the marketing organization. But it is not necessary to continue, as at present, under conditions which manifest themselves in total lack of uniformity of practice and the failure to provide standards of measurement, and other standards.

**The Territorial Factor.**—There are many obstacles to the introduction of a functionalized organization, such as that employed in production. The company which is seeking, or has already attained, quantity or rational distribution, for example, and which, for one reason or another, must undertake at least a portion of the marketing functions itself, has a tendency to decentralize its various marketing activities. Physical distance prevents close team work, and, while it tends to develop individual initiative and independence of operation, there is a diminution in that efficiency which comes only from a close-knit organization working in unison.

Decentralization is not in itself an evil, although it makes more difficult the problems of functional organization. If staff departments are united at the home office, then the support given to distant branches is apt to become less helpful and less efficient. There is, on the other hand, an enhanced need for an able Market Research Department, while the planning function, which serves to coordinate the whole organization, becomes almost a necessity for efficient operation. These two staff activities must be handled largely from headquarters, while the problems of training, accounting, credits, and service may have to be split up according to regional requirements.

One of the favorite methods of handling the problem is to divide the market into geographic sections, placing each one under a district Sales Manager who has complete or semi-complete authority over all the marketing functions in his territory. The Coca-Cola Company, which sells nationally a single standardized product to a fairly uniform market, has a field organization of five Regional Vice-Presidents, each with complete "line" authority over sales, advertising, and production activities. Functional authority is vested in the heads of departments at the home office. Under each regional manager are placed three to five district Sales



Managers, with line authority over individual salesmen, sales decorators, service section dispensers, service section decorators, and sign painters.

Under the functionalized system of marketing, the selling function becomes specialized. Special service managers are appointed for each district, as well as accountants and other necessary expert talent. Each district is in charge of a branch manager who is an executive in every sense of the word. He has charge of the coordination of activities, much as do the Coca-Cola Company's Regional Vice-Presidents.

**A Multiplicity of Products.**—In many cases a company is built around a basic raw material, or a basic manufacturing process, or a group of patents, in all of which cases the manufacturing relationship is obvious, definite, and intimate. There is likely, however, to be little or no interdependence or marketing relevance. The marketing organization of E. I. Du Pont de Nemours & Company, for example, is extremely complicated, due to the great number of products manufactured. It is made up of several departments, each under a general manager who is in complete control, not only of production, but also of sales. This general manager is responsible directly to the Executive Committee of the company. Each department makes products foreign, in a marketing sense, to the products of the other departments. Even in one department there may be a wide variety of products, seemingly unrelated.

Concerns which make such a multiplicity of products seem to believe that no general marketing system will fit all conditions. This is a natural assumption, perhaps, but one which inevitably must give way if it is admitted that the marketing functions and the principles of marketing remain the same for all products. The situation, therefore, is not one of hopeless incompatibility, but rather one presenting difficult problems in organization.

It is evident at the start that there are some activities even of those companies which build a multiplicity of products, often for different markets, which may be functionalized. The training of personnel of the Marketing Division, the analysis of the company's markets, and the planning of its campaigns can all be accomplished to best advantage when each of these basic activities is properly organized. The market for gunpowder

and the market for paint may be entirely unrelated, but this should present no difficulties to the properly trained Market Research Department, since it ought to find no great difficulty in investigating any market.

The point of differentiation for the company making many products lies in the Sales Department, which may be divided into as many sections as there are products or markets. Each product or market should be placed in charge of an Assistant Sales Manager, while the General Sales Manager is made responsible for his corps of subordinates.

The point to be remembered in all such cases of apparent difficulty is that staff functions, such as training, research, and planning, are applicable to any number of products or any number of markets, while the line functions, such as selling, must be organized to give maximum service to the various types of market outlet involved. Or, line departments may be organized according to types of market, or even according to types of product, in case such types present points of sufficient differentiation.

**Diversified Markets.**—An objection to functionalized marketing is constantly raised by companies which fancy that the peculiarities of the market for their line effectually prevent any cohesive and functionalized plan of marketing. In reality, this situation is usually less difficult to handle than the preceding one, especially if the product is uniform in nature, with differentiations of size or construction, perhaps, to suit the peculiar needs of the various markets.

A simple case of market differentiation is that of the Goulds Manufacturing Company, manufacturers of pumps, which divides the market according to its commercial and its engineering aspects. Small pumps comprise the commercial line, which is marketed through hardware, plumbing, and mill-supply jobbers and dealers. The engineering line consists of large pumps, which are marketed through agents or direct to the user.

The Bassick Manufacturing Company sells a well-standardized product to a diversified field. The company, which makes lubrication equipment, divides its market into five distinct fields:

- I. Automotive, which again is divided into
  - a. Manufacturers who buy the product for standard automobile equipment



- b. Retail
- c. Service.
- 2. Industrial.
- 3. Farm.
- 4. Railroad and railroad appliances.
- 5. Export.

Thus the market is divided logically into its component parts. The sales to the automotive field are handled as follows:

Manufacturers of automobiles are taken care of by a sales force of four men working under the Sales Manager, who call in person upon automobile executives. Advertising is keyed in with this program to influence the manufacturer directly and indirectly.

Retailers are sold through exclusive distributors, who handle only Bassick products. All garages, accessory stores, filling stations, lubrication stores, and car dealers are handled in this way. Supervision of the retail sales force is under a Sales Manager with a staff of eight men.

The company, according to one of its executives,<sup>1</sup> has succeeded almost completely in standardizing the methods employed by distributors in routing, payment, supervision, and handling of salesmen—also in office practice, methods of keeping records, and methods of making reports.

Virtually all plans are developed at the home office and are tried out on a specific territory, or part of the territory, before being put into general effect. There is, however, no separately organized Marketing Planning Department, plans being originated in the Advertising and Sales Departments.

**Engineering Features.**—Companies which manufacture products of an engineering nature naturally have tended to give their attention to the technical features of their products rather than to the marketing problems connected with them. Furthermore, the connection between the production and sales departments has been much closer in such companies because of the special applications involved, and because of the special job-shop nature of most of this business. Selling is almost as much an engineering problem as it is one of salesmanship.

The technical products built by a given company as a rule have common characteristics when viewed from the production standpoint, but diverse characteristics when seen from the market-

<sup>1</sup> W. F. Lochridge, Advertising Manager.



ing standpoint. Take, for example, the problem confronting the Dodge Manufacturing Company, which divides its business into four classifications:

1. Power transmission, a part of which is dealer business and another part engineering service, furnished in some cases to the dealer and in other cases direct to the consumer.

2. Material-handling equipment, taken care of by a special material-handling section, under the direction of the General Sales Department. While some of this business is handled through dealers, the majority of it is direct to the consumer.

3. A special Dodge-Timken department, in charge of the sale of Dodge-Timken hangers, bearings, pillow blocks, and the Dodge-Timken loose pulley. While this department is directed by the General Sales Manager, it is in charge of a separate division of the sales and engineering staff. This is of particular interest as showing how special problems will ultimately compel functionalization.

4. Special-equipment department, handling a large volume of special engineering work, such as plate-glass-polishing equipment, rolling-mill equipment, and the like.

The above handling of the market problem is based both on the product and on the market, with complications due to service and engineering requirements.

The problem of the United States Sand Paper Company is somewhat different, since it makes a product which is both technical and non-technical. The latter is distributed mainly by the jobbing trade to retail hardware dealers. The company does not assume the marketing function beyond the wholesaler. In the case of abrasive material, however, each consuming industry has its own requirements. Certain kinds of abrasives, for example, are used in the woodworking industry, while special material must also be made for the metal-working industry and for the leather trade. To market these technical items correctly, the company has had to train its own sales force, both in manufacturing problems and in the proper application of the particular kind of material best suited to the individual operations. This is another case where a special problem calls for special training of the sales force. To this extent functionalization becomes an inevitable evolutionary manifestation.

**Service Problems.**—Another objection to a functionalized system of marketing is raised by companies with peculiar service problems. Thus, the Fleischmann Company considers that it has a set of problems unduplicated by any other concern in the country. It manufactures yeast, a convenience product, and has its own distributing organization, without recourse to brokers, jobbers, or the other numerous wholesalers common to the grocery trade. It has, furthermore, two distinct markets in the shape of the baker and the retailer, both of which can be handled, however, by its own sales-delivery force.

It is difficult to see, however, why functionalization should not be applicable with particular force to such problems of distribution. Here, of course, sales is largely a delivery problem, but it is none the less important to functionalize the training of these sales-deliverymen, to plan their routes, to assign territories, to formulate quotas, to install a system of records. The fact that a company's business is peculiar to itself does not mean that it is less susceptible to scientific marketing management.

The Lamson Company, makers of conveying equipment, centralizes its sales-promotional and sales-planning activities at the main office at Syracuse. The engineering, sales, and installation details are handled through district offices. It may happen, for example, that the architect for a particular job may be located in New York, the general contractor in Philadelphia, the installation in Atlanta, while the owner resides in Chicago. By having a district organization capable of handling such details, these separate but vital interests can all be brought together. Furthermore, the need for expert attention the moment anything goes wrong with the installation is usually imperative, so that it is essential to have a service man within reach.

**Different Products and Different Markets.**—It sometimes happens that a company, for special reasons, makes products of entirely different natures and sold to entirely different markets. Thus, the S. L. Allen Company manufactures Planet Junior farm tools and also Flexible Flyer sleds. Its seasonal problem is thus taken care of, but at the expense of catering to markets which have to be served through different outlets.

One of the most interesting examples of this type of problem is that of the Wayne Tank and Pump Company, which makes, first, pump and tank products, second, industrial softener products,



and, third, domestic appliances of various kinds. To all intents and purposes, each of these is treated as a separate sales activity. For example:

1. Pump and tank products are marketed through a direct factory sales organization, operating on a salary and bonus basis. In certain sections of the country the organization is under the jurisdiction of district managers, who supervise all activities. The personnel is trained by working with the manager or experienced men until entirely familiar with the products and with marketing conditions. Since 99 per cent of possible customers may be identified through the handbooks of the trade, the market is almost absolutely definite. Advertising is functionalized and centralized at headquarters.

2. Industrial softener products are marketed by a sales organization operating directly under the home office. Advertising in this case is used to develop a mailing list, since prospects cannot readily be identified, as is the case with pump and tank products.

3. Domestic appliances, which include household softeners, are marketed both by direct sales and by dealer, although the latter is the prevailing method.

This is an interesting example of marketing growth so typical of conditions today. A given company finds itself with certain products to dispose of. If there is a ready-made means of distribution, this is made use of. If it cannot procure dealers on profitable terms, or if no dealers exist, it builds up a marketing organization of its own. In some cases, companies sell to wholesalers and then compete with them for the retailer's business.

**The Present Status.**—The above examples of progressive concerns of high standing, taken as they are from widely different fields and presenting widely different problems, have been chosen, more or less at random, to indicate certain tendencies. It is not possible to give here examples of unprogressiveness in marketing, but such examples would lead the observer to certain conclusions:

In the first place, opposition to functionalized marketing is founded on no true understanding of marketing principles. There is a general realization by managers that, in order to meet competition, better marketing methods must be employed, but, since each believes his own business to be peculiar, there is thought to be little value in any attempt to grasp the fundamentals of marketing practice.



Second, there is no uniformity of practice and standards among different companies. This follows naturally from the belief that each business is different. There is, however, an increasing agreement that marketing problems must now take precedence over problems of production.

Thirdly, it is evident that where the need is sufficiently imperative, functionalization occurs automatically and of itself, as a natural process, but that there is no conscious and intelligently directed attempt to build up a scientific system of marketing as there has been in production.

Fourth, it is apparent that complications are growing rapidly. The solutions for these complications are not carefully planned out, but occur merely as temporary stop-gaps to take care of an immediate need. The result is much marketing confusion and added marketing costs.

Fifth, the problem of decentralization offers both the greatest incentive to functionalization and the greatest obstacle to progress in that direction. It is a growing problem because of the increasing demands for service, which requires district and territorial offices, branches, and local service stations. The growth in the unit size of companies, on the other hand, adds yearly to the number of organizations which are able to practice national distribution themselves and to maintain their own branches.

Sixth, decentralization is opposed to functionalization because of the geographic and organization difficulties, which make a more or less complete delegation of authority almost imperative. It aids functionalization because it inevitably centralizes in the home office such functions as planning and research. Even the training function is specialized in many cases under such conditions.

Lastly, there is to be noted the dominance of the personal factor in marketing activities. This often results in the failure of the management to be acquainted with the markets which it is serving, this being left largely in the hands of salesmen and advertising agencies.

**Two Types of Marketing Organization.**—It would appear that there are two general types of marketing organization. These are indicated in Figs. 5 and 6. The first is the older type. It is represented by the company which started in business by building only one product, and which, little by little, added other lines which were closely related from a production standpoint. But

it is often the case that products which can be made readily by the same manufacturing equipment will have to be sold to entirely diverse markets, as is indicated in Fig. 5.

The second type of organization is a newer and rarer development, but one which, in a buyer's market, has numerous advantages. (See Fig. 6.) It is illustrated, in a modified form, in the automobile business, where the manufacturer is to a large extent an assembler of products made by outside concerns. This

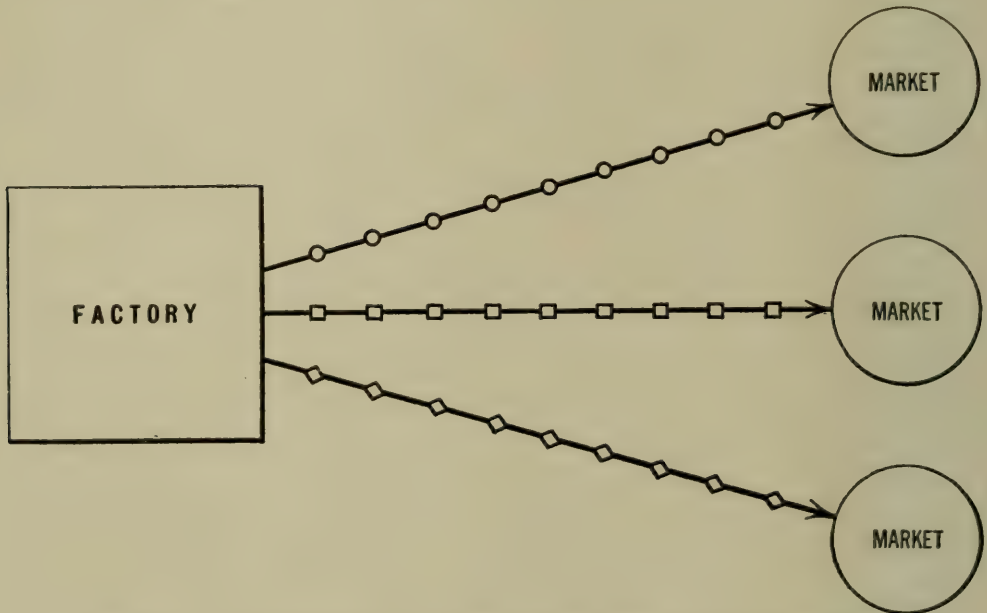


FIGURE 5. CONVENTIONAL TYPE OF MARKETING ORGANIZATION

This diagram indicates a factory which makes three different products. These products are closely allied, from a manufacturing viewpoint. But they must be sold to three entirely separate markets. This means a different marketing organization for each product. Cf. Figure 6.

type of organization is characterized by the conscious attempt to build a line which shall meet the requirements of one market, regardless of whether the manufacturing equipment required for this purpose is available within the company's own factory. If necessary, outside factories are called upon to supply the goods required by the market which is being served. Under this plan, the manufacturer assumes a sort of jobbing function.

The greater the insistence on marketing, the better opportunity there is for the second type of organization.

**The Measure of Efficiency.**—There are, of course, good reasons for the inefficiency of many marketing organizations.

Some of these shortcomings may be apparent rather than actual. It is, for example, extremely difficult to devise a satisfactory measure of the efficiency of a marketing organization. The crudest measure is the volume of gross sales; but this is of doubtful value. If volume of sales were the company's only objective,

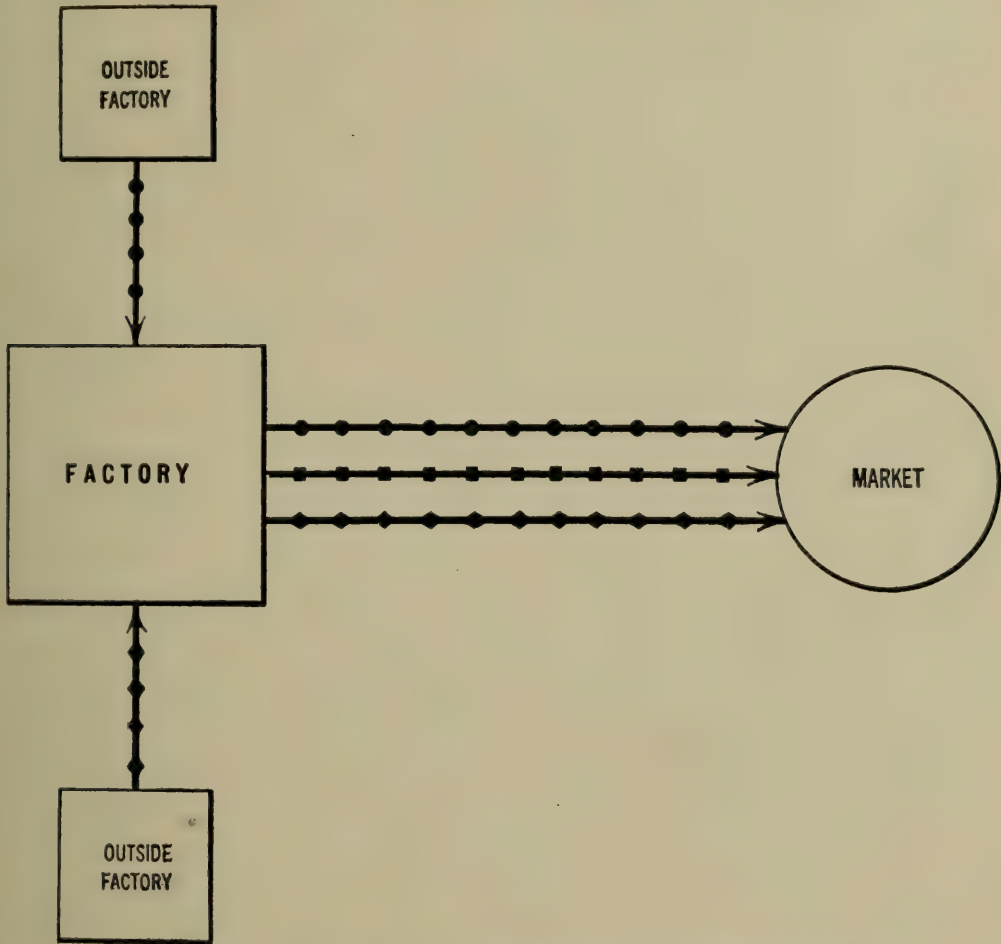


FIGURE 6. ANOTHER FORM OF MARKETING ORGANIZATION

The objective of this factory is to supply the requirements of its one market, regardless of the manufacturing difficulties which may be involved. If the products cannot readily be made in the company's own plant, they are procured from outside sources. This is a development of the older system, and has many advantages, from a marketing standpoint, over the plan shown in Figure 5.

then the problem would be comparatively easy. Most sales managers, it is true, have in the past regarded volume as almost the sole optimum. In accordance with it, they have set their quotas as high as possible and then, by arranging contests among salesmen, and by other expedients, have endeavored to force sales to the limit.



The results of such a policy cannot be expected to be lastingly satisfactory. An indication that they are not satisfactory is that there is an increasing tendency to base sales contests on factors other than mere volume of sales.

Nothing appears in the present review of conditions to indicate reasons why the principles of marketing may not be developed and applied quite as definitely and profitably as those of production. Marketing, in fact, has a certain advantage, because it can make use of the principles which already have been developed in production fields. Marketing science lags behind production science, just as social sciences lag behind the physical sciences, but its possibilities for service are as great or greater.

**Complication versus Simplification.**—The fact that marketing activities are not well functionalized sometimes tends, paradoxically, to make the company's organization more complicated. Even when its marketing organization is simple, the simplicity is often more apparent than real. The fact that the personnel concerned with marketing problems is not numerous does not mean that the functions performed by each person are not many and complicated.

Simplification can, of course, be obtained by passing on certain duties to other marketing functionaries. Thus, the Bon Ami Company has a small office personnel, and an exceptionally small sales force selling only to the jobber and to the chain-store systems. Advertising is entirely to the consumer; no sales-promotion work is done; no dealer aid is rendered. The company spends much effort, however, in trying to get the jobber not to overstock. It does him no good, since there is no quantity discount given to any distributive functionary. The company, with a view to rapid turnover for distributors, has established warehouses in about fifty cities, and has twice reduced the minimum shipping quantities so that the trade can purchase in smaller quantities.

Other companies, however, show just the opposite trend. They are gradually eliminating the jobber, with the result that they must assume his functions. This naturally results in a higher degree of functionalization within their own organizations. But there are comparatively few companies which have developed mechanisms for taking care of all the marketing functions. The result is a great number of functionaries, all working inde-

pendently but duplicating one another's efforts. And this means added costs to the consumer.

**Difficulty of Charting Marketing Organizations.**—An interesting point to note is that companies have not found it so easy to show a marketing organization graphically as a production organization. This is in part due to the fact that marketing is not as yet so highly organized as production. Organization calls for functionalization, and as long as a single individual does all sorts of work, there can be no true functionalization.

Another difficulty is the lack of standardized practice among the marketing departments of manufacturing companies. The whole situation is subject to the same criticisms which used to be applied to production departments—that is, no standards, no measures, everything rule of thumb. As the official of one company states, "we are not paralleling anyone that I know of, and if we are, we are doing it unconsciously. We have about 20 men in the field operating, I believe, a wee bit different from anyone else." This sounds the keynote of the marketing organization of the ordinary American company.

A great many changes are occurring in marketing organizations. Some officials report that they have no up-to-date organization charts because of the rapidity with which these changes take place. It is evident that this arm of business is undergoing a more rapid development than any other.

Finally, a functional form of organization, as opposed to the military, or line and staff, is the hardest kind to make, if it is not to be meaningless. It is much like trying to indicate the third dimension on a plane surface.

## CHAPTER V

### MARKETING MANAGEMENT IN THEORY

SCIENTIFIC management of any kind is made possible only by organization and control. Organization has to do with the arrangement of separately functioning, but mutually dependent, parts; control relates to the sustained operation of these parts.

In addition to an understanding of the technique of control, which is the line function of management, it is necessary to have a thorough grounding in the principles of organization. Since functionalization is at the root of scientific marketing organization, it is essential to know what the functions of marketing are, both from the standpoint of the economist and from that of the enterpriser. While the economist regards the field of marketing broadly and with little regard to "practical" considerations, the enterpriser lays his emphasis on the functions of dispersion.

Modern management is based largely upon the principle of the division of labor. Where the task to be accomplished, therefore, is limited or temporary, and where there is little call for specialization, there is small necessity for an elaborate system of management, nor would such a system ordinarily prove economical. But, as the range of activities broadens, and as business becomes keener and larger, as well as diversified and specialized, the need for developing an organized system of management becomes more acute.

In the actual installation of a system of scientific marketing, the task of providing for the separately functioning, but mutually dependent, parts calls, first, for an analysis of the entire undertaking, and, second, for a marshaling of the personnel necessary to carry on the work. In return for the expense and effort of organization, certain advantages are secured in addition to the reduced costs and added profits. The chief of these are:

1. That through organization the leader multiplies himself.
2. That organization permits replacing nervous elements by various aids and mechanisms.



3. That, through combination of many minds, many ideas are evolved, the best of which ultimately prevails.

4. That organization permits the executive's energy to be applied more efficiently than before.

5. That organization stimulates and energizes all individuals whom it affects.

**Control.**—Organization alone is not sufficient to secure scientific management. It must always be accompanied by some mechanism of control, and the two essential elements must be inter-related in such fashion that the best results are obtained. This phenomenon of control depends primarily upon the social nature of mankind, a quality in itself the outgrowth of centuries of self-preservation through collective effort, and the custom of following a leader. In fact, control inevitably implies leadership.

Control, on the other hand, also involves subordination. It is through subordination and socialization that leadership is made possible. Subordination, of course, may be of various kinds, such as that of children to parents, of one race to another, of one class to another, or of an individual to the multitude, in which case the personality of the former is subservient. There may, however, be subordination to some great ideal, such as loyalty, or to some dominant personality or leader.

He who controls must keep two things constantly in mind. In the first place, control is not mechanical, but psychological. Leadership is secured through applying stimulus to men's minds. Loyalty, however, can be attained only if it is reciprocated. The leader who requires loyalty of his subordinates must first show his loyalty towards them.

In the second place, the leader must remember that the collective action of any group depends upon its homogeneity. If all the individuals are similar in type, they will all react similarly to a given stimulus. Thus if the sales force is well selected and well trained, it becomes a compact body, loyal to its leaders, responsive to identical stimuli, and obedient in action. It implies subordination in the best meaning of the word—to ideals, which are company policies; to leaders, who are company executives; and to each other as co-workers and as men.

Control may be simplified by providing a mechanism to help carry it out. The latter part of this book is devoted to showing how such mechanism may be set up and put in motion.

**Requisites for Organizing Any Activity.**—In order to organize any activity satisfactorily, certain requirements must be met. Thus any plan of organization must be such that its members can operate jointly to better advantage than separately. In addition, a successful organization must have the following characteristics:

1. It must exist for the fulfillment of a definite purpose.
2. This purpose must constitute endeavor of a nature sufficiently diversified to fall readily into certain separate tasks or *functions*, each requiring distinct capabilities (or other qualifications, such as proximity to the work to be done).
3. The task to be accomplished must be sufficiently wide in scope and continuous in duration to warrant finding the best method of dividing it, and to permit training the several members in their specialized duties.
4. The personnel selected must be ready and able to work efficiently with others, and each member must be capable of performing his duties with the maximum efficiency, considering the remuneration paid for his particular job.
5. The duties of each member must be understood by all, and his line of authority, as well as his line of responsibility, must be clearly defined.
6. Finally, the greatest advantage of any type of organization cannot be obtained unless its members have the organization point of view. The essence of this is to see things in their related positions. Through increasing knowledge and experience comes the power to associate, to discriminate, and to differentiate. Tasks no longer appear isolated, but grouped. The organization point of view is common to those trained in the scientific method. Such men do not fail to observe details, but observe them only as components of a whole.

**The Political Side.**—Organization of any kind inevitably has a political aspect. This is true in government, equally true in business, and especially applicable to the Marketing Division. The men who engage in marketing must, of necessity, be versed in the lore of the politician.

It would seem natural for position and prestige to result from the ability to discharge one's duties well, to understand the technology of one's job, and to be familiar with every detail of one's work. Such, however, is not always or even ordinarily the



case. Men who go no farther than this hold subordinate positions and command low salaries. Positions of dominance are held by men adept at the art of ascendancy, of self-promotion, and even of intrigue. Although they may not be preeminently capable of performing the mere routine of their work, they succeed in rising. They devote themselves largely to contact with men outside of their own departments, and especially to their superior officers. Their methods are political, not scientific; fraternal rather than altruistic; subjective rather than objective; and self-seeking to the last degree.

Those who have had an opportunity to observe the inner workings of many large companies will agree that this state of affairs is almost universal. The situation is not sporadic or isolated, but characteristic. To decry this situation, or even to attempt a reform, is a waste of time. The sensible policy is to accept it, to make the best of it, and to utilize those principles and practices which, under a given set of conditions, will yield the best results.

Upon reflection, it will appear obvious that the business unit must have many of the characteristics of a political one. Control and dominance over other men has always been the aim of those who are strongest and most ambitious. It forms an end to which all other things serve merely as means. Business in one aspect is a form of warfare, just emerging from a semi-martial state. The feudal autonomy of the individual business unit has been curbed; its efforts must not be destructive, but must be exerted in constructive paths. Business is being regulated, just as the feudal barons were regulated. None the less, each business remains an independent unit, with strongly marked political characteristics. A successful philosophy of management, therefore, must provide for a form of government which is based upon psychological rather than mechanistic and engineering principles. While a study of Taylor is basic, a study of Machiavelli is equally important.

The tendency is for management to become more and more of a science, just as engineering is becoming more nearly an exact science than it was twenty years ago. This new science of management has certain laws and principles which take the place of hazy ideas and rule-of-thumb methods. It is true that marketing at its present stage of development does not lend itself



to rigidly functionalized methods of management to the same extent as production, yet there is much more that can be done than has as yet been attempted. In general, however, marketing will never be free of the personal. It will always present a problem in group psychology.

**The Theory of Organization.**—Formerly, industry was carried on under the single-enterpriser system. The partnership followed, on the theory that two heads were better than one. Later, the corporate form was developed—a species of legal individual, without definite term of life. In this country, the corporation now serves as the basis for practically all modern business organization.

In a good organization, each of its members puts his best foot foremost, while drawing his lame foot out of the way. That is, the strength of the members is magnified out of proportion to their actual numbers. Weaknesses, on the other hand, are minimized, no member being allowed to engage in activities for which he is not well fitted. Not all organizations, however, are good. It is possible, and even of frequent occurrence, to find organizations where the weaknesses of individuals are magnified, while their strength is constricted to the point of inertia or even extinction.

A few men are already to be found engaged in the attempt to apply scientific methods to marketing. They are striving to find forms of organization suitable to the tasks of which marketing is comprised. This is not easy to do, and, as yet, there has been little concerted effort in this direction.

Organization alone can never solve these problems. No sudden change from present methods to a highly organized system will of itself prove a panacea. Nor will a decision to adopt a scientific system cause it to spring full-fledged into being. It has taken years to develop forms of organization suitable for production work, and even these are not entirely satisfactory. In marketing, therefore, which is an even more difficult process to organize, a long period of experiment is to be expected.

Furthermore, as in every case where highly functionalized activities are enthusiastically adopted, there is always a temptation to over-organize. This is, of course, not desirable. In a small group, the temptation will be less, but in a large marketing department any plan which calls for over-specialization reacts to

the detriment of the personnel. Over-organization leads to high overhead, divided authority, and slowness of action, besides making personal contact difficult between the upper executives and the men on the firing line.

**Types of Business Organization.**—In marketing, as in any type of business endeavor, management may be divided into *line* activities and into *staff* activities. The line consists of those officers who give orders, maintain discipline, and are, in short, responsible. Staff men analyze, initiate, plan, and promote. They tell how work should be done. In line-and-staff organizations the staff men are manifestly specialists, such as engineers, inspectors, and technicians of various sorts.

The outgrowth of the principle of division of labor in manufacture has resulted in three fairly well defined types of organization. These are known respectively as the military, functional, and line-and-staff types.

In the military or, as it is often called, the line form of organization, all authority is traced directly to the executive in charge. While lines of authority are always straight and direct, commands may be transmitted by way of a series of minor officers.

Under the functional type of organization, each executive is presumably a specialist, and has charge of every activity which comes within the range of his field of action. The employees are no longer subject to one "boss," but to as many "bosses" as are required to discharge effectively the particular task in hand.

The line-and-staff organization is a modification of the two preceding types. It resembles the line form, in that all direct authority is transmitted from a single executive. It is functional in that the line officers obtain from a supplementary organization of specialists assistance regarding matters of a technical character. These advisers are known as staff officers. They have no direct authority and cannot issue orders. The easiest method of conceiving of a line-and-staff organization is to consider the various members of a line or military organization as having consultants available for purposes of counsel.

**Applying Organization to Marketing.**—Which of the three standard organization types, if any, is suitable for the Marketing Division? Do any of these forms of organization fit the task as

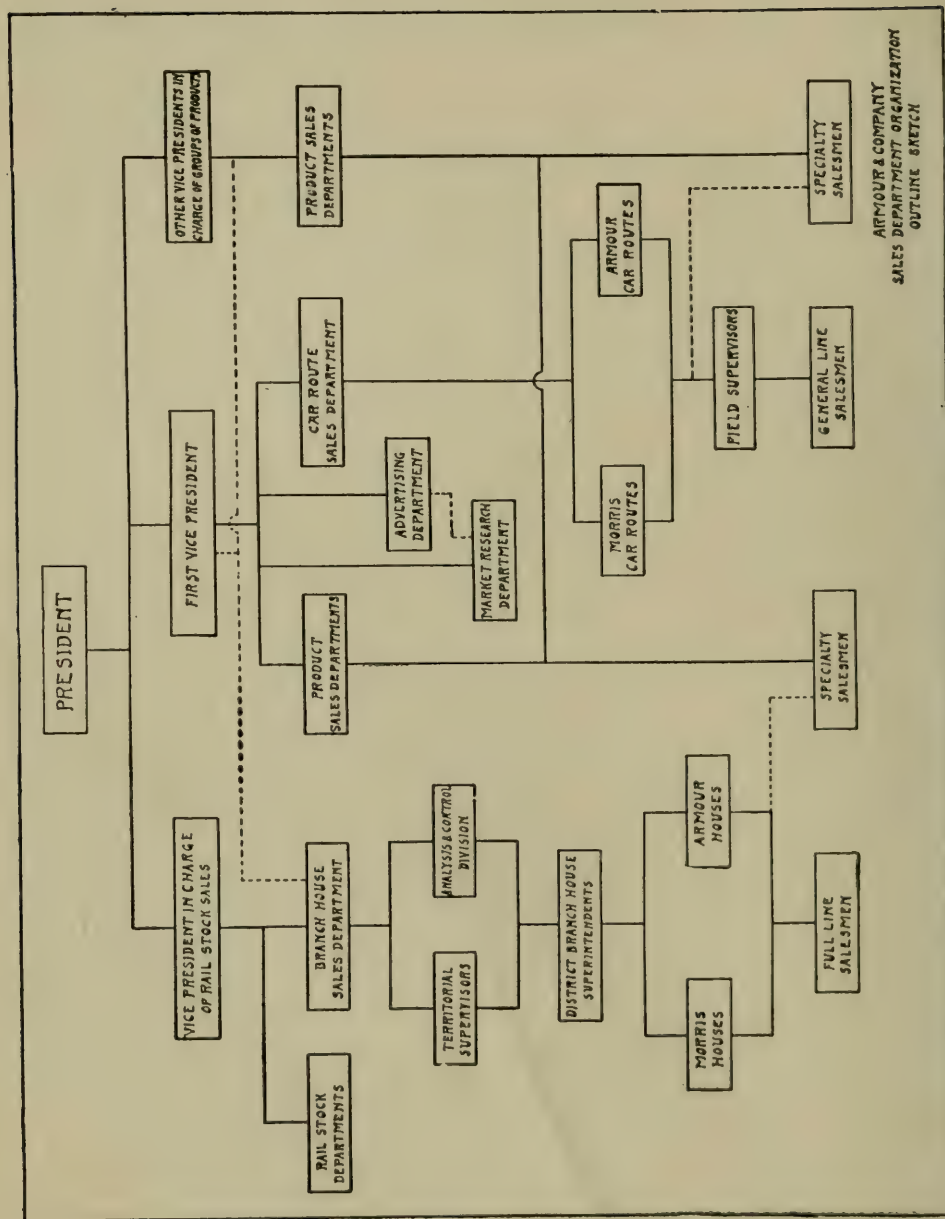


FIGURE 7. SALES DEPARTMENT OF A LARGE COMPANY

This is obviously an evolutionary development, resulting from the growing-together of more-or-less unrelated activities (such as those growing out of the Armour-Morris consolidation). It shows a conscious effort, however, to apply principles of functionalized organization and of coordination.



they are, can they be modified to fit it, or will it be necessary to develop an entirely different model?

No definite answer can be given at this stage of development. It is important to note, however, that many marketing organizations find their present systems inadequate to their requirements. Even the companies which are foremost in the adoption of advanced methods aver that it is best not to attempt the employment in marketing of those sharply defined plans of organization which they themselves use in their production departments. Even the pronounced advocates of graphic representation do not find it advisable to visualize their marketing activities in this way.

Thus the executive of one company<sup>1</sup> says: "My company does not operate on the basis of an organization chart." A high official<sup>2</sup> of another company states, "I suppose our business could be charted, but we have never seen any such charts that would apparently be of any benefit to us." Fig. 7 shows an organization of the Sales Department of a well-known company. It does not, however, show the functions of the Personnel Department in the sales field, nor does it show the committees which have to do with sales promotion and with sales planning.

It seems, from a study of all available data, that the eventual form of marketing organization must have functional characteristics. It has been fairly well established, for example, that the functional principle is essential to the success of a production organization. There is no reason to believe that it would not apply equally well to marketing.

One of the pioneer writers on scientific management brought out clearly the strength and weakness of the military form of organization. "It is because its object is offense and destruction," he says, "that evil characteristics are most prominent—arbitrariness, irresponsible exercise of power, harshness, and cruelty, with anarchy all along the line."

Companies are constantly making costly blunders because, not being composed of specialists who really know what they are about, they have not in their possession the evidence which alone can prevent the strong-willed leader from taking matters into his own hands and carrying out moves which are at variance

<sup>1</sup> H. D. Posey, Manager, Industrial Division, Lamson Company.

<sup>2</sup> W. O. Washburn, Managing Partner, American Hoist & Derrick Company.

with the facts. For example, one executive adopted a name for his new product merely because it was suggested by his daughter. Another went over to direct selling because a friend of his, in a totally different line of business, advised it. A third permitted an advertising agency to run his likeness in the firm's advertising, although he had reason to suspect this was merely a bit of strategy. An investigation of the facts, in each of these cases, would probably have shown that the decisions were wrong.

It should always be kept in mind that functionalization, as a basis of organization, calls for expert advice. Organization is effected through intelligent control, rather than merely by strong-willed leadership. The wise executive turns first of all to expert advice and competent counsel. Armed with facts, soundly interpreted, he is in a position to issue orders which have reasonable assurance of success. His predecessor, without competent counsel, acted on guesswork and trusted in Providence. Every intelligent executive should now recognize that he is not playing a game of chance, but is working out a result by means which are accurate and certain, and which are based on principles of almost mathematical precision.

**The Marketing Functions.**—Before discussing the changes which the more progressive companies are making in their marketing organizations, it is necessary first to have a clear conception of what the marketing functions are. The distribution of any product from producer to consumer requires certain clearly defined services or steps, normally termed functions. These various steps between producer and consumer may be numerous and complicated, as is the case with almost any manufactured product, or they may be few and simple, as is the case with a load of sand. In every case the functions are present, although their importance may differ widely. (See Fig. 8.)

The economist groups marketing functions in three main classes:

1. Functions of concentration, which include assembling and grading.
2. Functions of dispersion, which cover demand-creation and merchandising.
3. Facilitating functions, such as storing, transportation, communication, financing, and risk-taking.



In addition to these, there are various processes of conversion which may become marketing rather than manufacturing propositions. For example, the product may have to be packaged at some stage after leaving the producer, as is the case when a jobber affixes his own private brand, or when he breaks up the manufacturer's package into smaller lots.

**Functions of Concentration.**—While marketing is usually thought of as a process of broadcasting commodities, in reality it often has to do with their reception as well as with their trans-

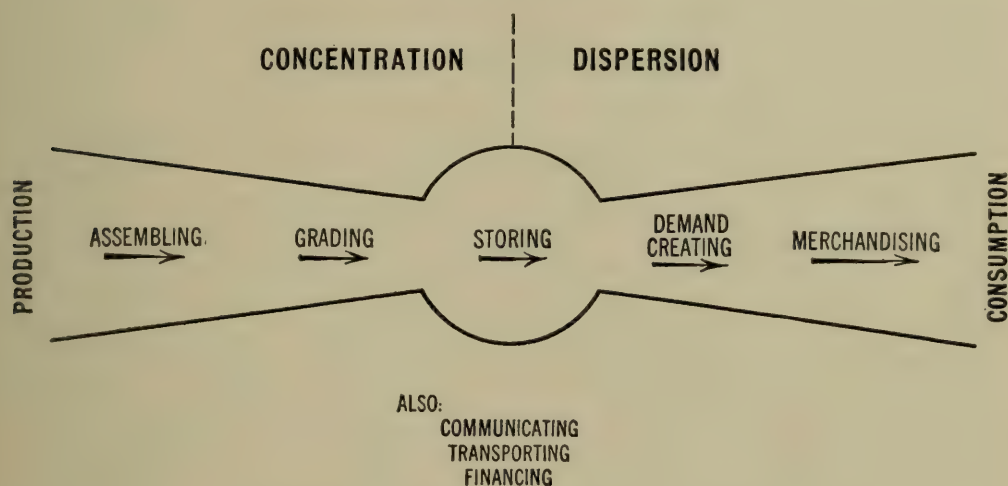


FIGURE 8. THE MARKETING FUNCTIONS

Advertising and selling (demand-creation and merchandising) are by no means the whole of the marketing phenomenon, although many people have this belief. It is true, however, that undue emphasis is placed on the functions of dispersion, to the detriment of the other functions.

mission. In other words, its functions of concentration may be important as those of dispersion.

Concentration, according to the economist, consists of:

1. Assembling, or the bringing together of goods. This is usually an actual physical assembling, although it may be only an assembling of orders, as is the case with the activity of the broker.

2. Grading, or the classification of goods so that they may be measured by suitable standards. The grading of products has progressed furthest with such staple food commodities as wheat and corn. Here the commodity can be sold on specification, sight unseen, and the purchaser can be certain of what he is getting. Grading, or the setting of standards, is becoming increasingly



important in manufacturing as the standardization of products continues.

According to the enterpriser, assembling consists mainly of purchasing, or perhaps of getting the goods from the production department into finished stores. The marketing expert is of necessity thoroughly acquainted with those markets which are being purchased from, as well as those which are being sold to. This specialized knowledge can hence be applied for the benefit of the Purchasing Department as well as for that of the Marketing Division. In fact, the rapid development of marketing activities may eventually bring the work of purchasing within the scope of the Marketing Division, although at present purchasing is normally considered the first step in production, and is usually under the jurisdiction of the Production (or Operating) Division.

While grading for the manufacturer consists of final inspection, throwing out, salvaging, or returning to the Production Department all seconds and inferior goods, it includes the further and most important duty of price fixing.

**Functions of Dispersion.**—The functions of dispersion are those which are chiefly stressed under present marketing conditions. Demand, for example, is usually created both by advertising and by salesmanship, thus forming the focus of present-day efforts.

Merchandising is the function complementary to demand-creation. The former satisfies the desire which the latter has induced. For the manufacturer it would cover such subjects as display, a great part of personal salesmanship, and such activities as sampling and demonstrations.

Under normal conditions, the functions of dispersion would merely take care of the demand which existed. Under present conditions these functions attempt to force demand. In many cases, demand is created at the direct expense of competitors. One company, if it is to be successful, must employ more "efficient" demand-creating efforts than its rivals. What business it secures is obtained by taking it away from these competing firms. In many cases the products are of equal merit, and the sole result of this excessive stress on the dispersive functions is to increase the cost to the consumer. One current advertisement frankly tabulates the reasons why the consumer should shift from his

competitors to him, the reasons being of such a character that any member of the industry could, in all likelihood, advance them with equal justice.

**The Facilitating Functions.**—The facilitating functions, of which the most important are storing, transportation, communication, and financing, are often assumed by middlemen. Before any manufacturer decides to do his own marketing, he must investigate carefully to see whether he will be able to carry out these functions as efficiently as the middleman is already doing.

Storing occupies a position midway between the functions of concentration and those of dispersion. It helps to take care of the inevitable lack of coordination between production and consumption. It will include not only the control of finished stores at the factory, but also the provision of suitable stocks, properly warehoused, at strategic points throughout the market territory.

Transportation, or the physical shifting of commodities from place to place, becomes a greater problem as the scope of distribution widens. It covers the entire field of traffic management. If transportation occupies a major position in the company's marketing program, as it does, for example, in the case of the packers, then a special traffic department will be required.

Communication, or the interchange of market information, is an increasingly important part of marketing, as territories increase. It is essential to keep in touch, not only with the sales force and the company's branches, but also with the company's customers.

Finance is the basic facilitating function of marketing, as it is of all other business activities. Risk-bearing comes under this head also, the most important of which is, of course, the question of credits. Accounting is also included, as a rule, as a part of this function.

**The Enterpriser's Grouping.**—The method used by the economist in dividing and classifying the marketing function has hitherto served a purely academic purpose. From the manufacturer's point of view, such a classification has little practical value. He has more or less neglected all the functions of marketing, with the exception of those of dispersion. The result has been that the other functions have been assumed by middlemen who have carried them on more or less efficiently. It is safe

to say that waste has been less under this plan than it would have been if a great number of small manufacturers had all attempted to perform these functions by themselves.

There has been a reaction against the middleman, however, with the result that he has been displaced in some industries where the manufacturer has been able to assume the various facilitating functions with efficiency. The result in most cases, however, has been complication, confusion, and duplication of functions.

It is evident that the enterpriser's conception of marketing, just as the economist's, is not the one which is best fitted to the needs of the consumer. Accordingly, since marketing is becoming a more and more complex process, instead of the simplified activity which all reformers cry for, specially trained men, conversant with all details of marketing practice, are increasingly in demand. These experts know the structure of markets, their operation, their characteristics, and their idiosyncrasies, just as a factory superintendent knows those of his machines.

The next chapter will attempt to show how a new procedure is even now being evolved from the old confusion, and how it points the way towards a new method of functionalizing marketing activities.



## CHAPTER VI

### MARKETING MANAGEMENT IN PRACTICE

MARKETING, under a scientific functional system, is basically a simpler phenomenon than marketing under the present arrangement. Under the scientific plan, the enterpriser assumes that the public needs certain commodities; he then sets out to produce those commodities, making them fit as perfectly as possible the purposes they are to serve. As contrasted with this, the current practice in marketing in this country is much more involved. Divested of numerous adjuncts (which are, however, important elements of its structure), modern marketing is essentially a concerted endeavor to anticipate mankind's wants by the widest possible economic margin. The public is supplied with possessions, acquisitions, and appurtenances far in advance of its need for them. It even accepts and pays for certain utilities which prove, in the end, not to be utilities at all. This situation is praiseworthy up to a certain point, since it serves to stimulate the laggards and force all commercial development forward.

The cost of such a method, however, is great. Marketing, in this sense, has become a process of producing buyers, instead of being, as normally, a process of bringing goods to a buyer who is ready and waiting. It is, therefore, a highly artificial, unstable, and speculative venture, consisting, as it often does, of an attempt to force goods upon a market already over-supplied. It is a situation which is uneconomic and unsound, at once precarious to the public, to the enterpriser, and to the country. It is, perhaps, the underlying cause of the business cycle.

This semi-pathological state is the inevitable outcome of an abnormal condition. Scientific marketing aims to correct this condition, at least so far as the individual company can correct it. It aims to go back almost (but not quite) to the normal condition, which is that of supplying wants rather than of creating them. It meets competition by knowing the market's re-

quirements to a nicety, and by thus being in a position to fulfill them better than anyone else.

**The Progress of Functionalization.**—It is apparent that scientific marketing is at variance with many marketing tenets which have hitherto been almost universally accepted. It takes none of these for granted. It looks askance at any attempt to force a product beyond a certain point, even by the accepted methods of advertising and salesmanship. It is inclined to reject any scheme which is founded upon an abnormal state of affairs, or which is economically unsound, even though it may be temporarily in the interests of the company. Although eager to make use of any principles or methods which have been developed through marketing practice, it accepts them only after careful examination. It challenges everything, and accepts nothing merely at its face value.

It is apparent to everyone that a rapid development, extension, and specialization of the fundamental marketing functions is taking place. These changes are going on in some cases at an extremely rapid rate. Progressive companies, to keep pace with the tendencies towards diversification, have recently been obliged to take steps to functionalize their marketing operations.

But the process of functionalization is only beginning to make itself felt. Advertising requires a highly trained specialist; selling calls for a personality with unusual qualifications and ability. Neither type is fitted, either by training or by temperament, to discharge those duties which the other marketing functions impose, and which it is more than ever necessary to perform well, in order to assure continuing success.

**Problems of Scientific Marketing.**—In practice, the problem is to build a working organization which, while not departing too radically from the conventional model, will, at the same time, provide for the new duties in the most effective manner.

Another problem is how to group the functions in the most efficient way, so that they can be handled by the men best equipped for the purpose. The men performing marketing functions outside of sales and advertising must be expert at their tasks; yet, as a rule, they must be hired at a lower rate.

Still another complicating factor arises from the fact that most marketing operations, as opposed to production operations, are scattered. Marketing personnel can seldom be grouped to-



gether at the home office; some of the strongest men must be delegated to branch managerships. Thus the normal tendency to follow out the principle of the division of labor is to some extent frustrated. Probably it is largely for this reason that sales divisions are usually operated on the military type of organization. Highly functionalized organizations, or even line-and-staff organizations, cannot be economically operated under the present hit-or-miss methods except, perhaps, by the largest companies which can absorb the excess overhead because of the magnitude of their business.

In the interests of economy, it is common practice to delegate functions which are, strictly speaking, within the realm of marketing to officers in other departments of the company. One would not, therefore, expect to find a working marketing organization in which all the marketing functions were provided for, in self-contained fashion, except, of course, in a purely trading establishment.

**Obstacles to Functionalization.**—There are a number of difficulties in the way of carrying out functionalization, aside from those already mentioned. Most of these have to do with problems of organization. An examination of current practice reveals the following:

1. No standard method. Each company must evolve its own method of functionalizing its activities. There is little or no attempt to take cognizance of what other companies are doing, partly because of the strongly intrenched belief that each company is different, and partly also because there is little interchange of information on these subjects. It is true that no method can be evolved which will take care of the details of all companies, but, granted that the fundamental principles are identical, then the problem becomes one of adapting rather than of originating.

2. Functionalization only partial. As is natural with any evolutionary development, functionalization as now practiced is only partial, not complete. There is no separation of activities into their component parts, except as necessity dictates. A company will, for example, have some particularly important function to perform, such as service, and this one function will be segregated, while the others will still be lumped together, as be-



fore. It is evident that functionalization can never be effected completely until the Sales Department itself is restricted to its primary and basic function of selling. An edict to this effect,

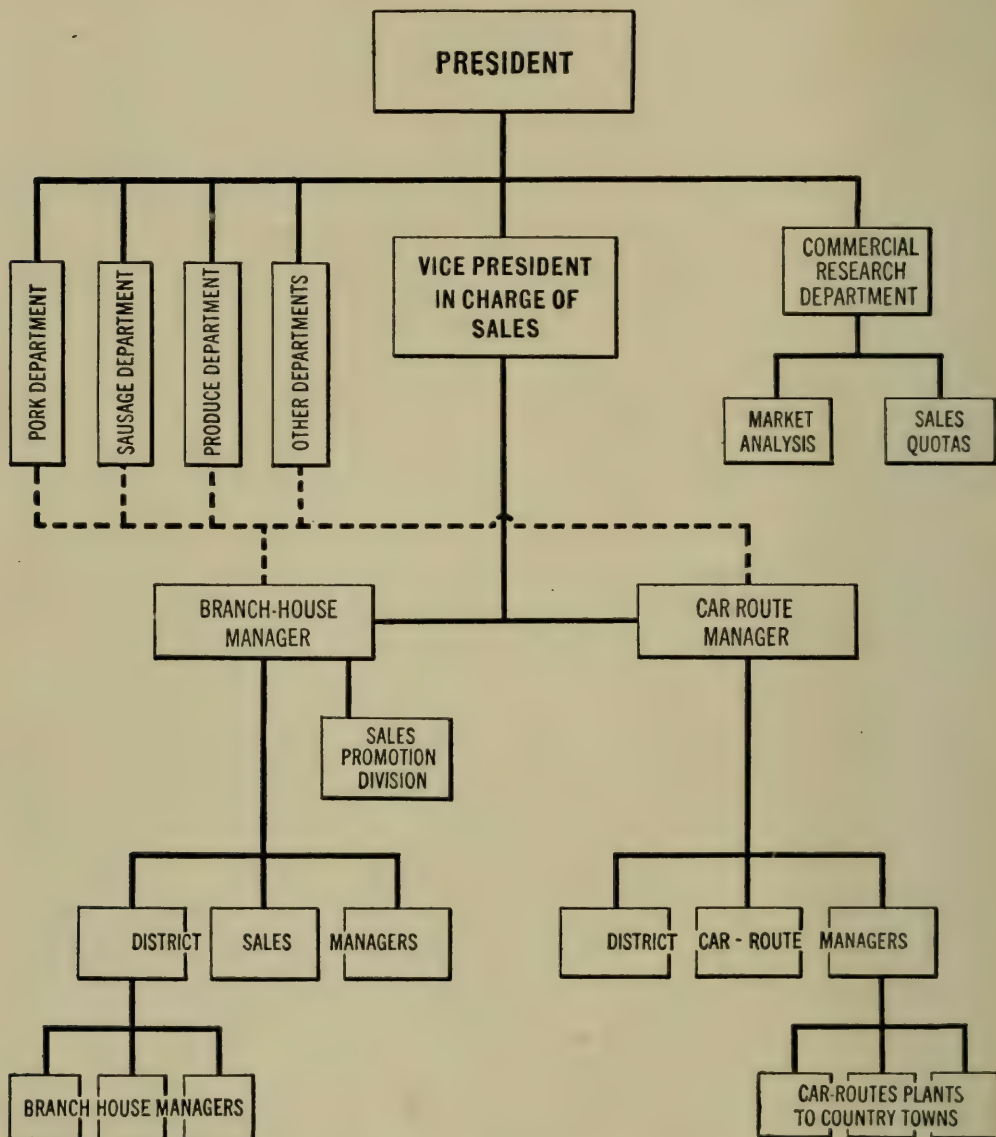


FIGURE 9. ORGANIZATION SHOWING TENDENCIES TOWARD FUNCTIONALIZATION

The Pork, Sausage, Produce, and other Departments exercise a certain functional control over the minor sub-departments, this being characteristic of the functional idea. This chart is purely unofficial, and does not pretend to be an accurate portrayal of the present line-up.

however, would be almost sure to be opposed by present sales executives.

3. Functionalization purely haphazard. As a corollary to the

preceding proposition, it follows that functionalization is not consciously carried out, but is an empirical and evolutionary process. There is little logical breaking down of the whole into its parts.

4. Confused lines of authority. Many companies which have put partial functionalization into use have found it extremely difficult to put their plan of organization into graphic form. Fig. 9 illustrates some of the difficulties which may arise. The meat products of Swift & Company are marketed first through branch houses, and second through direct refrigerator car routes from plants to country towns. A Vice-President has supervision over the Branch-House Manager and Car-Route Manager. Under the Branch-House Manager are district sales managers, and, under them, the individual Branch-House Managers. Under the Car-Route Manager there are district car-route managers with charge of routes from the various plants.

Different departments in the business, according to L. D. H. Weld,<sup>1</sup> such as the Pork Department, the Produce Department, and the Sausage Department, tie in to both the Branch-House Department and Car-Route Department, primarily through the managers of those two departments. There is, however, a certain amount of direct contact between these different departments and the district sales managers. This interrelation between the Branch-House, Car-Route, and special departments makes it difficult to draw up an organization chart which means anything.

**A Typical Example of Functionalization.**—Fig. 10 shows the organization of the Sales Department of Willys-Overland, Inc., indicating how functionalization has proceeded in the case of advertising, service, sales promotion, car distribution, and statistics. There is also an interesting development in the case of commercial cars and taxicabs, which are dealt with separately. A detailed study of this organization will show some highly interesting tendencies towards functionalization.

The General Sales Manager exercises executive control over the whole department, including advertising and service. He also controls policies affecting branches, distributors, and dealers, and all changes in personnel. He approves new models and

<sup>1</sup> Formerly Manager of Commercial Research Department, Swift & Company, Chicago, and a well-known authority on research methods.

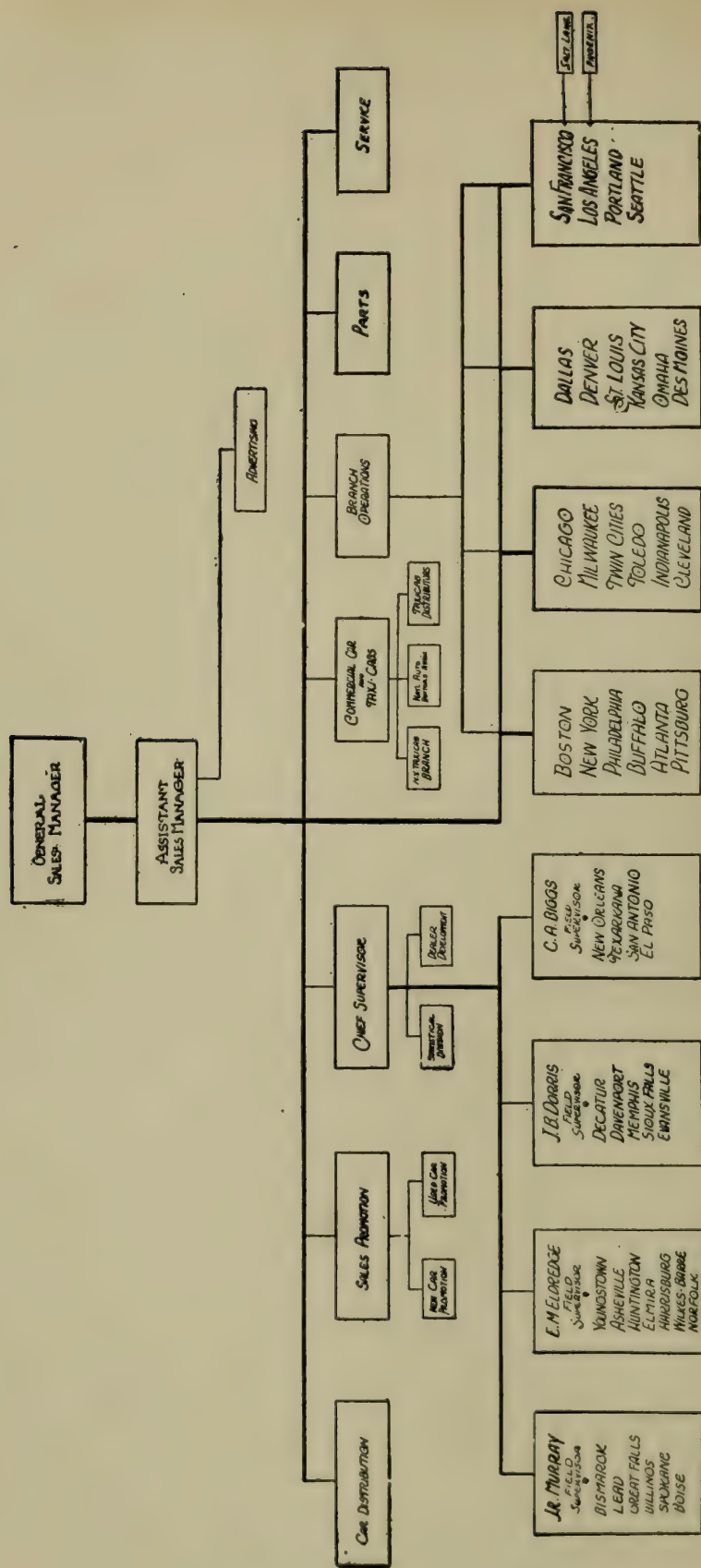


FIGURE 10. FUNCTIONALIZED ORGANIZATION OF WILLYS-OVERLAND, INC.

This is a highly functionalized marketing organization. A company of this size, operating in a field of this sort and of this magnitude, has opportunities to effect marked improvements in efficiency and economy, over and above the conventional plan of marketing.



mechanical changes, and establishes prices and discounts on cars, parts, and accessories.

The Assistant Sales Manager handles contact with the advertising agency, keeps in touch with the wholesale personnel in the field, has direct supervision of Field Supervisors working out of the home office, and is responsible for control of the Sales Department budget.

The Chief Supervisor has charge of the statistical and dealer development divisions. He prepares and distributes a semi-monthly economic report, has charge of the installation and operation of the standard wholesale procedure at branches and distributors, studies comparative registration reports and dealer performance against contract quota, and oversees the work of Field Supervisors.

The Statistical Department is functionalized. It handles, for instance, all mail, takes care of the filing system and mailing lists, operates the library, and keeps in contact with other departments of the company. It also analyzes car registrations, and makes dealer quota studies and county quota studies. It distributes all sales literature. It also has charge of contact with the field as delegated by the Chief Supervisor.

The Dealer Development Section studies dealers' operating costs, routes and supervises field investigators, and keeps in contact with branch managers and distributors, making recommendations as to remedies for difficulties.

The Sales Promotion Manager edits promotion literature, originates and plans sales campaigns, does educational work among distributors, originates, develops, and supervises field contests, supervises special publicity men, develops used-car policy, and, in general, has charge of all the merchandising activities apart from the actual selling.

The Manager of Branch Operations is, in fact, a coordinator of all branch reports, who recommends procedure to the Sales Manager.

The Sales Manager of the Taxicab and Commercial Car Division has a specialized job and reports direct to the Sales Manager or his assistant.

The Manager of the Car Distribution Division is not only a traffic manager, but he also keeps track of stocks in the hands

of distributors and branches. He also has charge of used-car stocks.

The manager of the Service Department collects and compiles data pertaining to car performance in the hands of owners. This department also has contact with the field on the subject of changes in the product. It investigates the service policies of competitors. It takes general supervisory charge of branch service departments. Furthermore, it is responsible for the design and manufacture of various sectioned motors for display, or working models.

The Manager of the Parts Department formulates the parts policies, establishes parts prices, prepares parts lists and price lists, controls stocks, and is responsible for the conduct of branch parts departments.

The Willys-Overland Company has, as is evident, progressed a long way towards a more efficient marketing organization, through the intelligent use of functionalization.

**Functionalization of Staff Activities.**—While the functionalization of non-selling marketing activities is not so pronounced as specialization in the selling field itself, there are, nevertheless, well-developed tendencies in that direction. There is, of course, little community of practice between different companies, almost every one having its own particular method of taking care of such activities as research, training, and planning.

In the case of the Procter & Gamble Distributing Company, sales planning, sales promotion, and market analysis are handled by a sales committee, aided by a Sales Research Department and an Economic Research Department. The functionalization is not complete, however, since, in addition, there are individuals in the line sales organizations who carry on sales planning and sales promotion work. It is interesting to note in this case that special sales forces are used for glycerine, bulk Crisco, flake white and oil, and chip soap, respectively. (See Fig. 11.)

In the case of the American Rolling Mill Company, responsibility for sales planning is divided between the district offices, the sales management, the Development Department, and the product departments. This plan of splitting up functions is typical of the conventional type of marketing organization. The Development Department takes care of market analysis, direct

# ORGANIZATION OF THE SALES DEPARTMENT

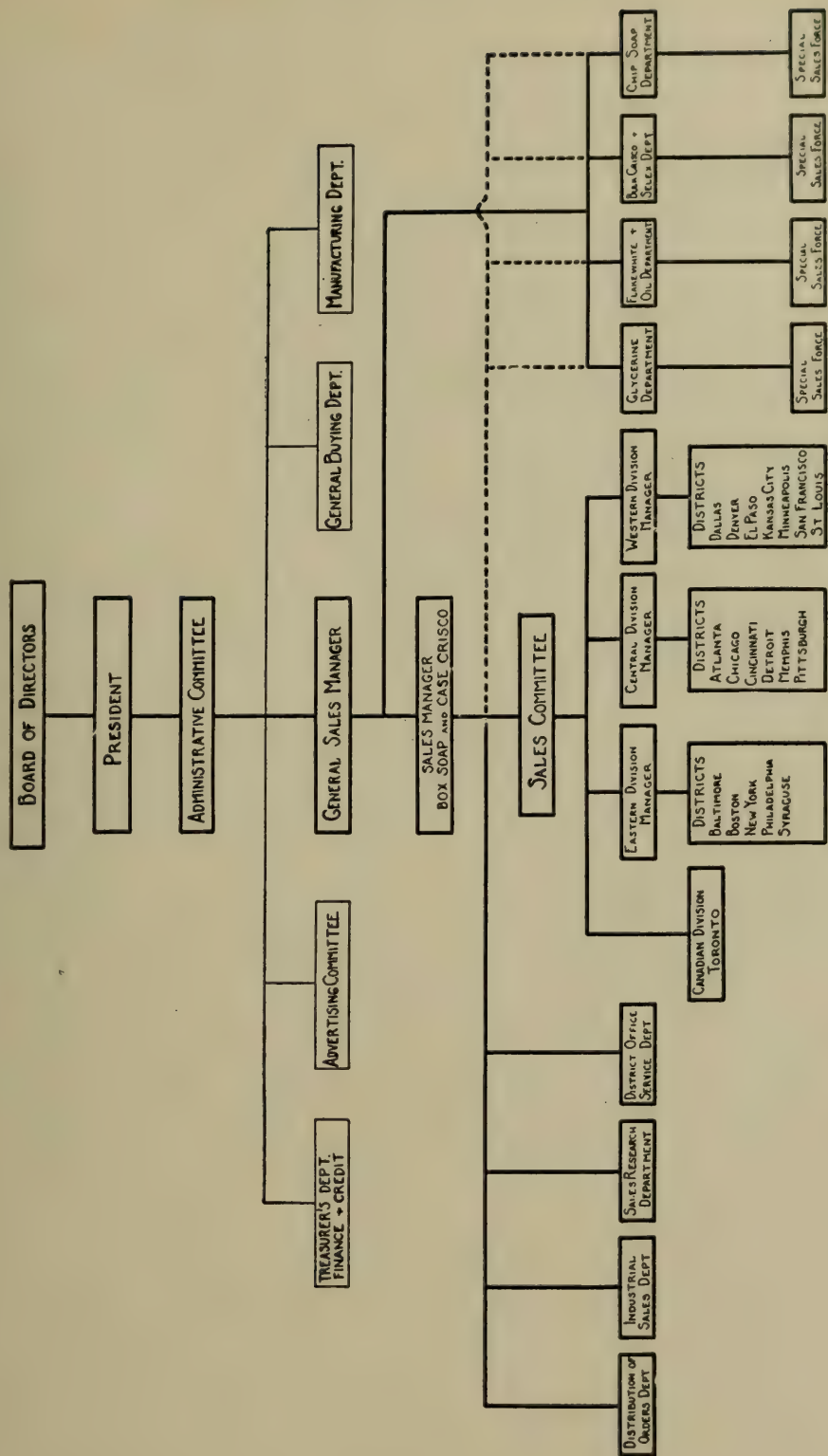


FIGURE 11. INTERESTING EXAMPLE OF FUNCTIONALIZED ORGANIZATION

Especially noteworthy is the method used of dealing with territorial control, while at the same time providing suitable facilities for breaking down special functions and providing centralized control over them.



mail, sales training, field promotion work, preparation of data for Armco salesmen, and the development of new uses for products. The Development Department also acts as liaison between the advertising and sales activities. All major questions of advertising policy are decided upon by a Publicity Conference Board, consisting of the leading members of the Publicity Department, the sales management, and representatives of the Development Department and of the department which has charge of the particular product to be advertised.

**The Controlling Factors in Organization.**—It is evident that there are certain forces which are working towards the functionalization of marketing activities, not only in regard to the sales function itself, but also in regard to the non-selling marketing program. While it is impossible to tabulate and appraise each one of these forces, there are certain ones which stand out from the rest as affecting the present organization of marketing:

1. The characteristics of the market.
2. The characteristics of the product.
3. The customs of the industry.

It often happens that these three factors are all present in determining the form of marketing organization employed.

The size of the market will naturally have a great effect on the complexity of the organization. If the number of possible customers is very few, as is the case with the Acme Wire Company, of New Haven, Connecticut, then they can be seen frequently, a compact sales force can be employed, and the sales organization be composed of merely a few individuals. If the market is small, price is often the determining factor in making a purchase, and thus the sales function is reduced considerably in importance, since the purchaser makes the choice on factors independent of salesmanship.

If the product is such that service is required, then the marketing problem at once becomes involved. It means that if the company has national distribution, it must have an organization in the territory to take care of its service problems, which normally means that this organization undertakes the actual selling function as well. Thus, the Lamson Company, manufacturers of conveying equipment, have district and sub-district offices to

carry out the three functions of selling, engineering, and installing.

The problem of the Coca-Cola Company is to get salesmen who are jacks-of-all-trades, since they must be able not only to secure orders, but also to place advertising displays and to render



FIGURE 12. DUTIES OF THE COCA-COLA SALESMAN

Functionalization will always be more difficult in marketing than in the factory. A man working "in the territory" must be able to perform a number of functions to good advantage. Division of labor in marketing can never be carried to the same degree that is found in the progressive assembly system of an automobile factory.

various services. The latter includes testing the drink served by the individual fountains, testing the degree of carbonization and refrigeration, examining the dealer's manufacturing unit, and the storage conditions surrounding the packaging of the syrup. A division of labor in a case of this sort would be unnecessary, and likely to prove expensive. It is more practical to have one man perform the three functions than to have three



men for the purpose. Fig. 12 illustrates the Coca-Cola salesman's functions in graphic form.

Thus it often happens that field functionalization of the selling process is impracticable when territories must be traveled intensively. This will not prevent functionalization at headquarters, however, although the form of the organization will be modified to some extent by the territorial force.

The custom of the industry is at present an important factor in determining the market organization. Thus, the sale of sugar is handled through brokers. The American Sugar Refining Company has sales offices connected with each of its five sugar refineries. The Sales Manager in each district is assisted by six or seven clerks handling correspondence relative to shipments, entries of orders, contracts, and the like. The various sales office territories are subdivided into brokers' markets, a broker being appointed in the principal cities to handle the adjacent territory. These brokers do not handle other sugar accounts, although they do distribute other food commodities. Sales managers are held responsible for their entire territory to the home office and to the General Sales Manager.

Another case where the general system of the trade governs sales organizations generally is to be found in the automotive industry. The general custom is to market automobiles through branches and distributors, and from them to a dealer organization which sells the cars to the public. Distributors and dealers are expected to finance their own businesses. The Ford Motor Company reports that it has thirty-five branches distributing to its authorized dealers. The Nash Motors Company operates without branches, sending cars direct to distributors who are supposed to act as factory branches, and who pass the cars on to their dealers. This company has functionalized certain activities at headquarters. Advertising is prepared there and is then mailed to distributors and dealers, so that it is uniform throughout the entire territory. A statistical department is also maintained at the factory which analyzes territories and prepares market reports.

In short, there are here and there certain tendencies towards functionalization to be observed in the present structure of marketing. While these tendencies are neither widespread nor com-



## PLANNING DEPARTMENT

*R.H. Macy & Co*

Feb. 3, 1928

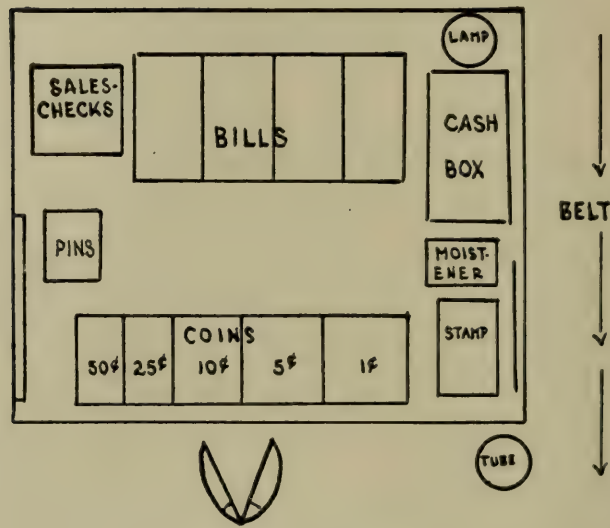
SUMMARY OF CYCLES - MAKING CHANGE - CASHIERING STUDY

Cycle No.	Order on Film	Film Time			Cashier	Type of Transaction		(Cashier's side of belt)	Pencil	Money Received		Money In Change	
		Clock Time	Length of Cycle	Revolutions at Start of Cycle		Taken	Sent			Bills	Coins	Bills & Coins	Coins
1	3	95	2	63	Croog	(X)		R	Drops	(X)	(X)		(X)
2	5	40	3	00	Croog		(X)	R	Drops	(X)			(X)
33	6	40	3	38	Croog	(X)		R	Drops	(X)			(X)
4	7	75	2	75	Croog		(X)	R	Drops		(X)		(X)
5	1	12	3	80	Croog	X		R	Drops	X		X	
6	2	92	5	03	Croog	X		R	Drops	X			X
7	4	82	2	82	Croog	X		R	Drops		X	X	
8	15	30	3	60	Messing	X		L	Holds		X	X	
9	16	90	3	15	Messing	(X)		L	Holds	(X)		(X)	(X)
10	17	20	5	50	Cohen		(X)	L	Drops	(X)			(X)
11	8	80	2	25	Kanarick	X		R	Drops		X	X	
12	9	85	2	90	Kanarick	X		R	Drops	X		X	
13	10	75	4	41	Kanarick	X		R	Drops		X		(X)
14	11	15	4	85	Kanarick	(X)		R	Drops	(X)			(X)
15	12	01	4	82	Kanarick		(X)	R	Drops	(X)		(X)	
16	13	53	6	82	Kanarick		X	R	Drops	X		X	
17	14	05	5	84	Kanarick		(X)	R	Drops			(X)	
18	19	41	4	75	Colton	X		R	Holds	X			X
19	20	17	2	95	Colton	(X)		R	Holds			(X)	(X)
20	18	51	6	84	Colton	?	?	R	Holds	X			
21	21	12			Colton		(X)	R	Holds				

FIGURE 13. MOTION STUDY OF DEPARTMENT-STORE OPERATIONS

This shows the results of studies of 21 cycles of operations in tube-room cashiering. Five of the most accurate and fastest operators were selected to serve as subjects for this study, and motion-picture records were made of their motions, many of these being so rapid as to be hardly discernible to the unaided eye. As a result of the studies, a change was made in the store's tube-room practice, and even in its layout, as is indicated in Figure 14.

# CASHIER'S DESK - OLD TYPE



# CASHIER AT LEFT OF BELT

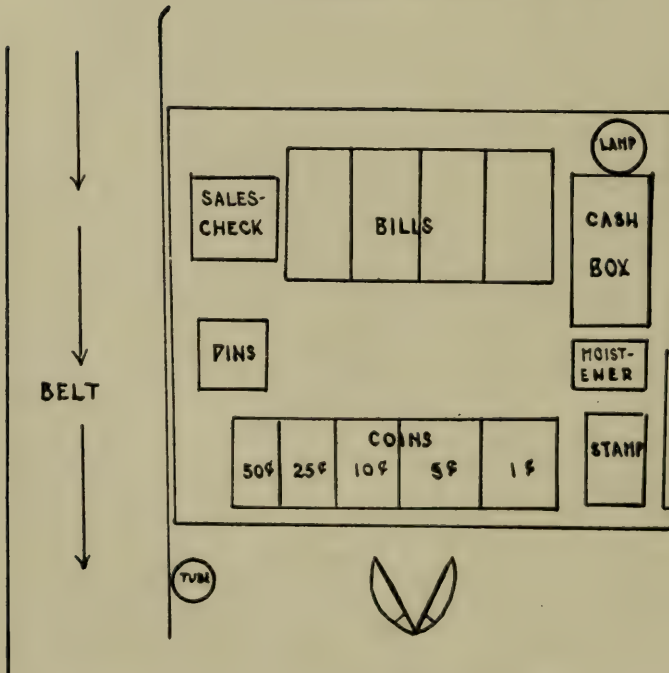
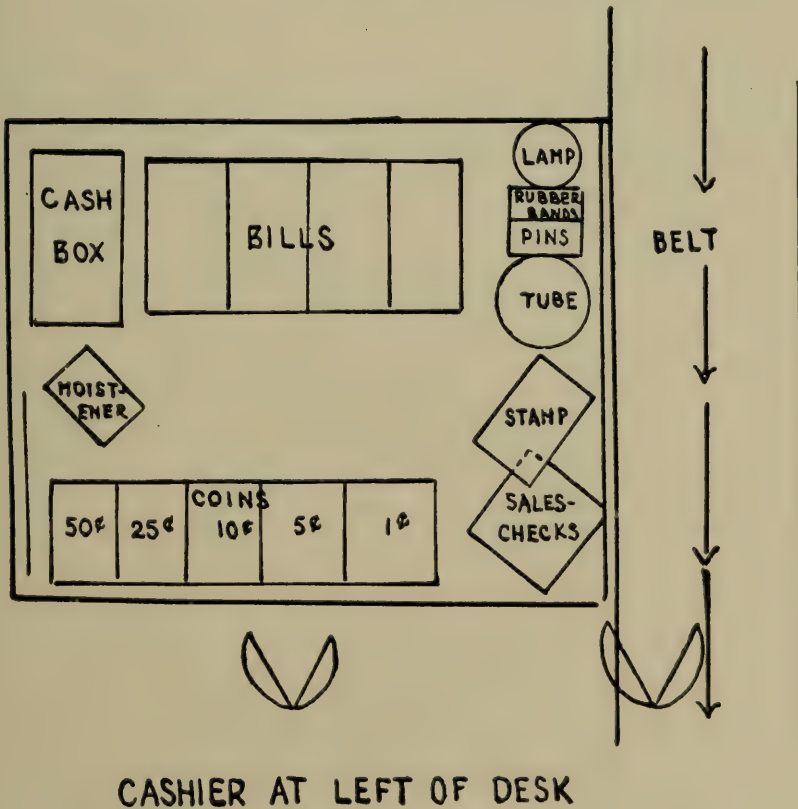
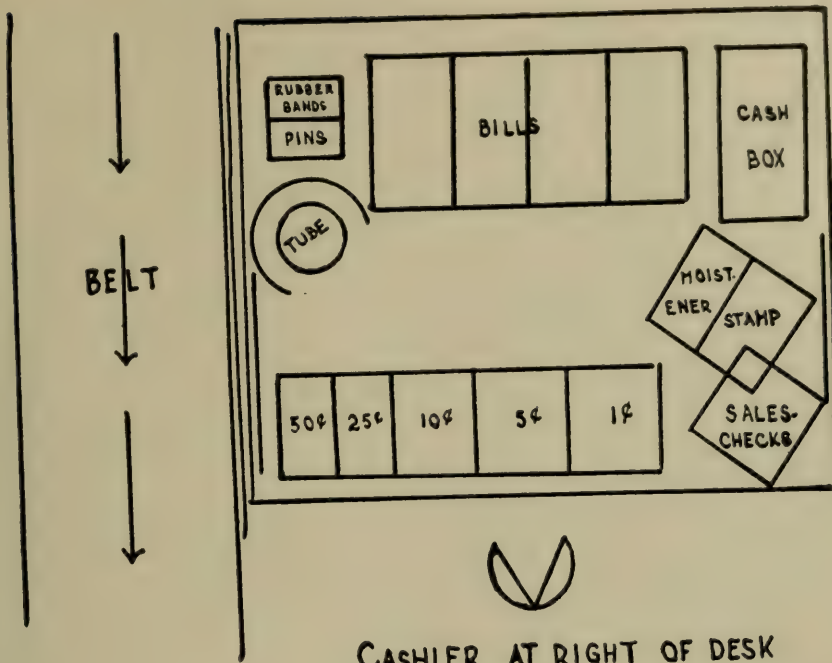


FIGURE 14. CHANGE IN CASHIERING LAYOUT RESULTING FROM MICRO-MOTION STUDIES

These diagrams show the old and the new types of cashier's desk, and the changes adopted in the new equipment made as the result of the time studies referred to in Figure 13.

# CASHIER'S DESK - NEW TYPE





plete in any way, still they serve as straws to indicate which way the wind is blowing.

It should be remembered that functionalization is only one of the scientific principles which serve as the groundwork for a rational system of marketing. Many of the principles of scientific management are directly applicable. Even some of its methods may be, and have been, used to good effect.

In the field of retailing this is particularly true. The mail-order house is perhaps the closest analogue to the scientifically managed factory which marketing can offer. The chain store is an exemplar of the repetition idea so characteristic of mass production. The department store has also taken some highly significant steps along the line of appropriating scientific principles of management. A striking instance of this is illustrated in Figs. 13 and 14. The former shows the summary of a number of micro-motion cycles made of tube-room cashiering in a department store. The scientific-management methods of time and motion study were applied, exactly as in the factory. As a result, the entire practice was altered, even the layout of the tube room being changed. The latter change is illustrated in Fig. 14.

In addition to those already enumerated, there are other scientific principles which are essential to the properly coordinated marketing program. These principles will be stated in the next chapter.

## PART IV

### BUILDING A SYSTEM OF SCIENTIFIC MARKETING

- CHAPTER VII. THE PRINCIPLES OF SCIENTIFIC MARKETING  
CHAPTER VIII. THE ORGANIZATION OF SCIENTIFIC MARKETING  
CHAPTER IX. THE CONTROL OF SCIENTIFIC MARKETING

*It is taken as axiomatic that scientific marketing management will be an evolutionary development. Up to this point, the book has attempted to trace evolutionary growths and tendencies. In the beginning of this Part are set forth the principles upon which this growth is based. The second chapter discusses the application of these principles to organization, which is considered as one half of management, while the last chapter treats of control, which is its other half. In general, this section describes a marketing system, and its application to marketing management.*





## CHAPTER VII

### THE PRINCIPLES OF SCIENTIFIC MARKETING

ONE reason why no more success has attended the efforts of those who have attempted to build a system of scientific marketing is that they have put their faith in methods and men, and not in principles.

The most successful scientific production methods will fail if imposed upon the company's marketing activities in unmodified form. The principles, however, are just as good for one activity as for another, and, if they are properly carried out, success will be sure to follow.

The rise of the most successful business men is dependent upon adherence to certain universal principles. It may be possible to proceed against the current for a time, but ultimately these guiding truths, which have become established through thousands of experiences, will prevail. It may be observed that this is another way of saying that theories are the means whereby success is attained. Such is the fact. It is through theories that a more rational basis for conducting marketing activities can be brought about. Given the right theories, reduced to a working code, and given an organization for carrying out the resultant principles, then the success of the system of scientific marketing is assured.

**The Basis of the System.**—The primary consideration in formulating any program of marketing reform is the profit which the enterpriser may expect through the perfection of his marketing practices. This book aims to show that high profits and low marketing costs may and should go together.

The second basic premise underlying this system is that the soundest plan for effecting betterments in distribution is through the improvement in marketing practice of individual companies. Any hope to effect betterment solely through external pressure, as, for example, through legislation, should not be encouraged.

The system advocated in this book is an evolutionary devel-

opment, based on certain tendencies towards functionalization already proved sound, but never before properly elaborated, unified, or codified. The system here set forth is a conscious attempt to realize a clearly defined objective which will replace the present company policy of *laissez-faire* in marketing. It takes advantage of the work which has already been done. But all progress thus far has been sporadic and incidental. There has been little coordination. One company may have developed an excellent Market Analysis Department, another may have gone far with a system of planning. But hitherto there has been little conscious endeavor to relate all the marketing activities to a scientifically planned system of organization, wherein each particular function operates in coordination with the whole.

**Marketing as a Mechanism.**—One way of making the problems of marketing appear more distinct is to imagine marketing itself to be a great mechanism, as visible, tangible, and impressive as a large factory. The mechanical nature of marketing can, for example, be made striking by visiting one of the large mail-order houses. Here there is no manufacturing in evidence, but there is every other link in the chain between production and consumption. The creation of demand, the merchandising of goods, the delivery of articles purchased, and the countless processes of assembling, grading, standardizing, transporting, and financing, are to be seen worked out in mechanical form, with chutes, conveyors, elevators, and all the machinery which makes for greater efficiency in marketing.

A study of such a plan gives the impression of marketing as an edifice. This is as marketing should be, and as it must be, in times to come. There is coordination between the various factors, together with harmony, interdependence, and cooperation. The whole mechanism functions as a unit, which is what distribution in the future must aim to do.

Machinery can do much the same for marketing that it has done for manufacturing. It can reduce the slavish, time-consuming drudgery to a minimum, leaving human energy free for other work. It can obviate waste, it can reduce effort, it can bring greater benefit to all. The word *machinery* is used here in its larger sense. What sort of machinery it will be is not yet known, any more than those who lived in Colonial times could know of the cotton gin, or the linotype, or the electric furnace. All that



can be said is that this machinery will, through its virtue, reduce the costs of marketing, and give greater service to the consumer.

**The Need for a Pioneer.**—Advocates of scientific management, so-called, are, for the most part, imitators of Frederick W. Taylor. They comprehend his methods, but his principles are often beyond their grasp. Taylor was preeminently a crusader, constantly at war. He remained at peace with few of his clients; with many of them he was at constant odds. Taylor was fighting for a principle, as all great men are.

A man like Taylor is needed today. Production, partly as the result of his work, has outstripped distribution, and has given rise to a state of affairs which calls for action based on the same disregard of tradition, the same aggressiveness, and the same courage which characterized Taylor. Such a man must tear aside precedent in marketing, must set up new ideals, and must fight until they are accomplished.

In an organization where definite principles and policies rule, there are an earnestness of purpose and a unity of action which are a pleasant contrast to the vagueness, aimlessness, and uncertainty of the establishment where principles are not the foundation. It may require a man of quixotic temperament to be the leader and the protagonist of such a group. To some, the emotional methods which he uses for motivating his subordinates may seem amusing. But the most successful business, like the most successful football teams, are run on a basis of leadership, the leader dominating by virtue of a few primitive forces. Without the exercise of these forces success cannot be complete, despite the most rational and logical processes of the mind. A scientific plan which did not take cognizance of this state of affairs would not be scientific at all.

**The Principles of Scientific Marketing.**—What, then, are the principles according to which marketing should be conducted? How is marketing to be reduced to a scientific basis, as production has been? Some of the outstanding principles are as follows:

1. *Objectivity of Demand.* Marketing centers in all cases around the needs of the consumer. This is an absolute shift from the old practice of making the producer the focus of all business relations. It provides a definite goal based on the logic of cold



facts rather than on the subjective wishes of the industrial autocrat.

2. *Division of Labor.* The principle of the division of labor is applied to marketing through the greater functionalization and specialization of effort. Sales and advertising are no longer supreme; room is made also for training, research, planning, service, and other essential activities.

3. *Analysis.* The marketing problem is carefully analyzed by means of a research organization. This analysis is made the basis of all plans.

4. *Planning.* Just as in modern production management, there is a special division organized for the planning in detail of marketing processes and operations.

5. *Training.* All members of the marketing division of the business should be trained in the best methods. This training constitutes one of the bases of scientific marketing management.

6. *Control.* A careful system of supervision, discipline, and remuneration must be worked out if scientific management is to prove successful. The organization cannot function by itself unless a parallel system of control is provided. One of the essential elements of this control is cost accounting.

7. *Coordination and cooperation.* Although the principle of the division of labor is carried out on a functional basis, provision must be made for coordination of these separate functions. In the second place, this coordination must be conducted in a cooperative fashion. There must be help and support all along the line.

8. *The Ethical Concept.* The guiding and all-embracing principle of scientific marketing is an ethical one. That marketing practice which is most ethical—that is, which is best for all concerned—is the one which will bring success, in the largest and most enduring sense.

In considering the application of scientific management to marketing it cannot too often be repeated that hitherto scientific management has been a misnomer. The scientific method has been applied with considerable degree of success to production, but it has never been extended so as to include marketing. This is only starting.

**Objectivity of Demand.**—Scientific marketing is built around the consumer. It is a system aiming positively and throughout at his benefit. The system is based on the assumption

that the sellers' market is a matter of economic history, and that the buyers' market henceforth is the normal condition. There will always, of course, be exceptions in the case of new products for which demand is temporarily in excess of the supply. With modern methods of production, however, demand is likely to stay ahead but a comparatively short time, as in the case of radio industry, which in a few years not only has supplied but over-supplied the demand.

This new system assumes that the high marketing costs which give rise to so much complaint are largely the result of failure to follow the principle of objectivity of demand. Too many manufacturers have followed the tradition of making what pleased them, never dreaming they would not find a market ready and waiting. They have left out of account the fact that they have, to a considerable extent, been producing goods which did not fit the consumer's requirements. Naturally, it costs a great deal of money to "educate" people to buy things they do not want.

The system depends upon a nicely balanced relationship between producer and consumer, whereby each party is benefited. Just as one of the basic aims of scientific management was to promote a better relationship between the company and the workman, so the primary objective of scientific marketing should be to promote a better relationship between the company and the consuming public.

The system of scientific marketing assumes that production exists in order to serve consumption. But many companies seem to suppose that consumption exists in order to further production. Scientific marketing is based on the theory of finding out what the consumer *wants* and then giving it to him. If there are goods which he needs but does not want, it will often be possible to educate him for his own benefit and for the benefit of the company producing the goods in question; but such an educational campaign cannot fairly be called a direct and immediate marketing cost.

Production exists in order to serve consumption, and for no other purpose. Man does not consume in order to produce; he produces in order that he may consume. Business men know this, but they do not apply the law. Consumption is primary, production secondary; yet it is rare to find a business which boldly faces this fact and which produces goods always with a



view to the requirements of consumption. In the future these requirements will have to be met, consciously and effectively, by business men. "What does the consumer need?" This question will stand at the beginning of every business problem.

Simple as this seems, it is a different attitude from that now reigning. The new approach will call for a changed viewpoint, an improved type of organization, and a different manner of doing business.

**Division of Labor.**—The second principle of scientific marketing is that all the marketing functions must be provided for in the organization, each function to be directed by an expert. This does not mean that in the small company there should be as many separate marketing departments as in the large company. But it does mean that in both large and small companies there should be a conscious separation of the various marketing functions. Even if one department should do both the analysis and the planning, these must be recognized and carried out as two distinct functions.

The desirability of division of labor in marketing has long been recognized in theory. But questions of expediency, together with the empirical method of growth so typical of marketing, as fostered by an apparently insatiable demand for goods, have postponed the analytic division of the functions of marketing according to their basic elements.

The system of scientific marketing here advocated assumes that selling has become over-developed, and that it is, after all, only one of the marketing functions. The properly organized company should intrust all its marketing problems to a department for that purpose.

In many cases, advertising has also become over-emphasized, and the proper functions of advertising have been extended into a vast and complex system for forcing the distribution of a particular product by fostering an artificial demand. The advertising, however, has not been adequately related to other marketing efforts. Under the system of scientific marketing advertising is put in its proper position as one of the several correlated functions.

The basic purpose of this functional division of marketing is to make one individual, who is a specialist, responsible for a single



line of effort, instead of intrusting him with a confusion of executive, legislative, and judicial functions, as is now the case.

**Analysis.**—Few companies are well acquainted with their specific marketing problems. This fact is often disclosed in a startling way when the first market analysis is made. Facts reveal themselves almost at once to the market surveyor which are often unknown and unsuspected by the management, and which may even appear incredible to them. It is a common occurrence for the management to be ignorant not only of its market, but also of its sales force. When it comes to advertising, the management as a rule is ill acquainted with the subject. The ordinary executive takes the stand that advertising is a highly specialized branch of business and that he cannot be expected to understand its details. There is, however, no reason why a complete marketing information service for the enlightenment of the management should not be available without the addition of personnel. Such a service might be expected to reduce the company's marketing expense rather than to increase it.

Analysis is not a matter of statistics alone. It is essentially a breaking down of a problem into its constituent parts. The ordinary method in vogue today is to attack what appears on the surface, while the analytic method enables an organization to go to the bottom of a problem and to give each of the factors of which it is composed a rating relative to its importance.

The Research Department, which has been regarded in many quarters as a needless expense, becomes in the new organization one of the primary factors. The making of any plan is predicated upon prior research and analysis.

**Planning.**—Plans today are made, as a rule, by individuals, each following his own ideas. Plans, according to scientific methods, are formulated by a specially organized division or department. Planning in marketing, as elsewhere, means setting up policies and objectives, establishing standards, providing suitable methods of procedure, and arranging for the actual steps involved in carrying out the work in hand.

It should be a fundamental rule of the organization that plans will originate only from the Planning Department, or at least that they shall be routed through this department, even if originated elsewhere. Any schemes for improvement which are suggested elsewhere (and such suggestions should be encouraged)

will be submitted to the Planning Department for investigation, and for approval or rejection.

The principle of planning is an active one. It presupposes creative effort. The Marketing Planning Department is the energizing and motivating member of the organization. Plans which are made on a scientific basis can be carried out successfully, while those originating haphazard in the brain of the executive may or may not succeed.

Planning is becoming more and more a long-range function. Prediction and forecasting are now integral parts of the company program. It is necessary to look ahead, for months or years, and to evaluate trends and to make preparations for them. It has been customary to regard the making of major plans as a purely executive function, in which case the excellence of the plans would depend entirely on the reasoning ability of the executives in question. Under a system of scientific marketing, the function of the executives would be to pass upon plans after they had been originated logically through a process of research. They would use their judgment and experience in estimating the value of these to the concern. Minor plans, which have hitherto been formulated by the departments themselves, are now made by the central planning body.

**Training.**—The fifth principle of scientific marketing is training in the best methods, not only for salesmen, but for all members of the Marketing Division. In some cases this will require a special Marketing Training Department; in others the central Personnel Department may assume this function.

Hitherto the Sales Manager has often been compelled to train his men—that is, if they received any training at all. There still prevails in many quarters the old adage that “salesmen are born, not made.” This is exemplified by the star salesman who, by virtue of a long record of success, ascribes to himself a certain mysterious ability which marks him apart from his fellows.

Scientific marketing takes it for granted that training in principles and methods increases efficiency and thereby lowers the costs of distribution. If no training is given, then the salesman must learn by himself. He must acquire experience in the so-called school of experience. Here he learns how to sell through his failures, which are not only failures for him, but for his company as well. Not only will the salesman make more money



for himself by being properly trained, but he will make more profit for the company.

The American Management Association has summed up the essentials of training in the following words: "Training is of value, first, because it permits the acquisition in the shortest possible time of correct methods of work, and second, because it greatly reduces the number of bad methods acquired."

**Control.**—Any system of management, if it is to work out efficiently in practice, must provide some mechanism of control. Therefore, one of the fundamental principles of scientific marketing is control. The marketing plans can be carried out only if this control mechanism is working. Control when applied to production can often be reduced to an almost automatic process. With the marketing mechanism, however, no such absolute control is possible, since it is largely made up of human factors. The supervision of these human constituents is much harder than in the case of machines, since so many other impalpable factors enter the equation.

No matter how thorough the training may have been, it is essential to have a system of supervision to make sure that policies and methods are carried out. This may be done in some cases by personal supervision; in others by records and reports; in still others by a combination of both methods.

Control, to be effective, must be accompanied by some system of reward, remuneration, and discipline. A great many companies have experimented at length with systems of incentive, promotion, and remuneration, but as yet there is no one plan which is agreed upon as best. The requirements of scientific marketing are fulfilled, however, if the method used brings out in highest degree the individual's will to succeed and directs this along the lines of the company's policies.

Control, since it depends upon standards, presupposes quantitative methods of measurement. Cost accounting supplies such quantitative standards. Absolute costs may be determined, as well as predetermined, while comparative costs may likewise be submitted to the executive, so as to enable him to select the most efficient alternative.

**Coordination and Cooperation.**—One of the greatest enemies of progress in scientific marketing is the prejudice and ignorance of the management itself. Most men who have arrived



at positions of influence and power, especially those of the older school, have done so through methods which cannot be called scientific. Accordingly, it is highly difficult to carry out a program of scientific marketing under their eyes.

One of the fundamental requisites for success in scientific marketing is that of help and support all along the line. The help comes from the top and extends downward. The Marketing Manager supports his department managers; and they in turn back up their men. The company's representatives help the dealers. Everything is keyed to bring help to every link in the chain, and above all to that last link, the consumer.

It is important to realize at the outset that each higher grade in the organization exists for the sole purpose of sustaining what is below. Under the usual arrangement, the reverse of this is to be seen. In a scientific system each man must be the servant of those beneath him. The organization is built from the bottom on a firm foundation, thus avoiding the unstable inverted pyramid which many current organizations resemble.

One of the most difficult things to cope with in any organization is the tendency to follow the line of least resistance. The management wants to avoid trouble. It wishes to find an easy way. It expects to be shown a formula which can be applied to any problem, and which will effect a neat and easy solution. It hopes to find a cure-all which only surgical methods can correct. The most exasperating difficulty the scientist has to face is the age-old desire for a nostrum, a patent medicine, a sovereign remedy.

**The Ethical Concept.**—The last and in many ways the most important principle of scientific marketing has to do with ethics. As pointed out in Chapter II, the question of ethics is a relative one. It is hard to build up any code which is above the general level of practice. Neither the firm which is quixotically ethical nor the firm which deviates widely from the established code will be permanently successful.

Ethics are of two kinds. There are general ethics, which apply to marketing as a science and which have already been discussed. Then there are the specific ethical rules which are adopted by the company itself. General ethics are enforced by social pressure or regulation by government, trade association, or other group or organization. Company ethics are enforced by

compulsory adherence to written rules of conduct formulated in accordance with the principle of objectivity of demand.

Marketing ethics have a scientific basis in that they form a logical continuation of the principle of the objectivity of demand. Service, for example, is one practical application of this. It was discovered empirically that service to the consumer was not inimical to profits. The *caveat emptor* principle was shown to be antiquated, out of harmony with present conditions, and therefore unethical. Everyone recognizes today, at least publicly, that unethical practices are not good business. Not many years ago it used to be considered good salesmanship to tell what poor merchandise was made by competitors. Now, no good salesman discredits his competitors, nor does he consider it profitable to take customers away from competitors by underhand means.

Cutting prices, from the point of view of many trade associations, is an unethical practice. But it is not unethical from the consumer's point of view, because he is interested in any method which lowers the sales price to him. Ethics, therefore, will differ according to whether they are formulated from the subjective or the objective point of view. From the angle of reducing prices, the bargain basement might be regarded as highly unethical, for it sells goods, bought in job lots, at less than the cost of production, and if the goods fail to sell, it will merchandise them automatically at less than cost. This, however, is not unethical from the standpoint of the consumer.

Codes of ethics, to be of any practical use, must be put into concrete form, as, for instance, in the written policies of the Division. The earlier trade association codes and many of their codes today are too general and too nebulous to be of anything but inspirational value. Then again, codes of ethics often serve to defend those very practices which scientific marketing seeks to abolish. The term ethics conveys to some the odor of sanctity. Many so-called codes of ethics are in themselves unethical from the consumer and objective point of view. They are often cloaks for combination and collusion in restraint of trade, and as such have often been attacked in the courts. Any code which puts the interests of the members ahead of the interests of the consumer is unethical.



**Running a System to Death.**—Scientific marketing, conducted according to the above-outlined principles, makes no pretense at infallibility. It is merely the code according to which the individual system must be operated. Nor can any mere system of itself bring success. It is essential to have a guiding intelligence. Many efficiency experts are clever at showing how a shop can be run like clockwork at a hundred per cent production. Like a beautiful mechanism, operating at maximum capacity, with every ounce of energy being properly applied, it turns out a product with the least possible expenditure of effort and time. All this is important, but it is less important than it is to build up the steady day-in and day-out volume of business without which the shop could not function at all. It is comparatively easy to devise methods of production which succeed superlatively when the shop is running at full capacity, but it is difficult, with markets in an unsettled condition, to obtain a regular flow of orders. The latter problem is primary, the production problem has become secondary. The task of marketing already calls for higher mental caliber than that of production.

When a man of preeminent ability applies himself to solving a problem, and does so successfully, he has a host of followers. Such was the case with Frederick W. Taylor, but, as is also usually to be found, many of his followers were followers and nothing more. They approached problems after the manner in which he was accustomed to approach them, but not in the spirit in which he would have approached them under the now-changed conditions.

**The Company's Own Attitude.**—Before any system of scientific management is introduced, the company should make sure whether it wants such a system. To many minds, "science," although it seems a desirable thing, is rather an empty phrase. Before any steps towards reorganization are taken, it is necessary first to know whether a scientific system is really desired by the company in question. In the second place, it is essential to ascertain whether or not the management will be able to assimilate the principles underlying the system and to apply them effectively.

There are, as a matter of fact, a number of requirements which the individual company will have to meet before it can install a



scientific marketing system. They may be chiefly summarized as follows :

1. Clear understanding of the objective which is being aimed at.
2. An organization of such a character and based on such principles that the objective will have a reasonable chance of being attained.
3. A sufficiency of men, money, and equipment.
4. The necessary leaders and teachers.
5. Most important, the guiding principles, which must be thoroughly understood by all.

## CHAPTER VIII

### THE ORGANIZATION OF SCIENTIFIC MARKETING

ON THE basis of the foregoing principles it is necessary to erect a working organization or system. According to scientific procedure this is done by separating marketing activities into a logical series of functions, and then by departmentizing the personnel in accordance with these functions. If the system is to be practicable and not a merely visionary project, it must hold close to the following conditions:

1. *Clear-cut Conception of Functions.* Much of the trouble with the marketing efforts of many companies comes as the result of the inevitable complexity of marketing activity. As the selling function has grown in importance, new departments have been added without proper attention to function, but purely with regard to the operating expediency of the moment. The result has been great confusion and a total lack of uniformity in the practices of different concerns. Figure 15 shows the organization of a large and highly successful company which has found it necessary to add certain staff departments yet still without a completely unified plan of organization.

2. *Objectives.* To put into operation a scientific system it is essential to have objectives. The majority of concerns operate on a day-to-day basis; the company which works on a scientific basis has a definite goal towards which all its plans and actions are directed.

3. *Standards.* One of the best methods of eliminating marketing wastes is by setting up proper standards of accomplishment and then holding to them. These standards may be of various kinds. The quota is one form of standard.

4. *Coordination.* Provision must be made for the interlinking of the various functions after they have been separated. Each department must be acquainted with the work of the others. This is made possible by means of conferences and committees

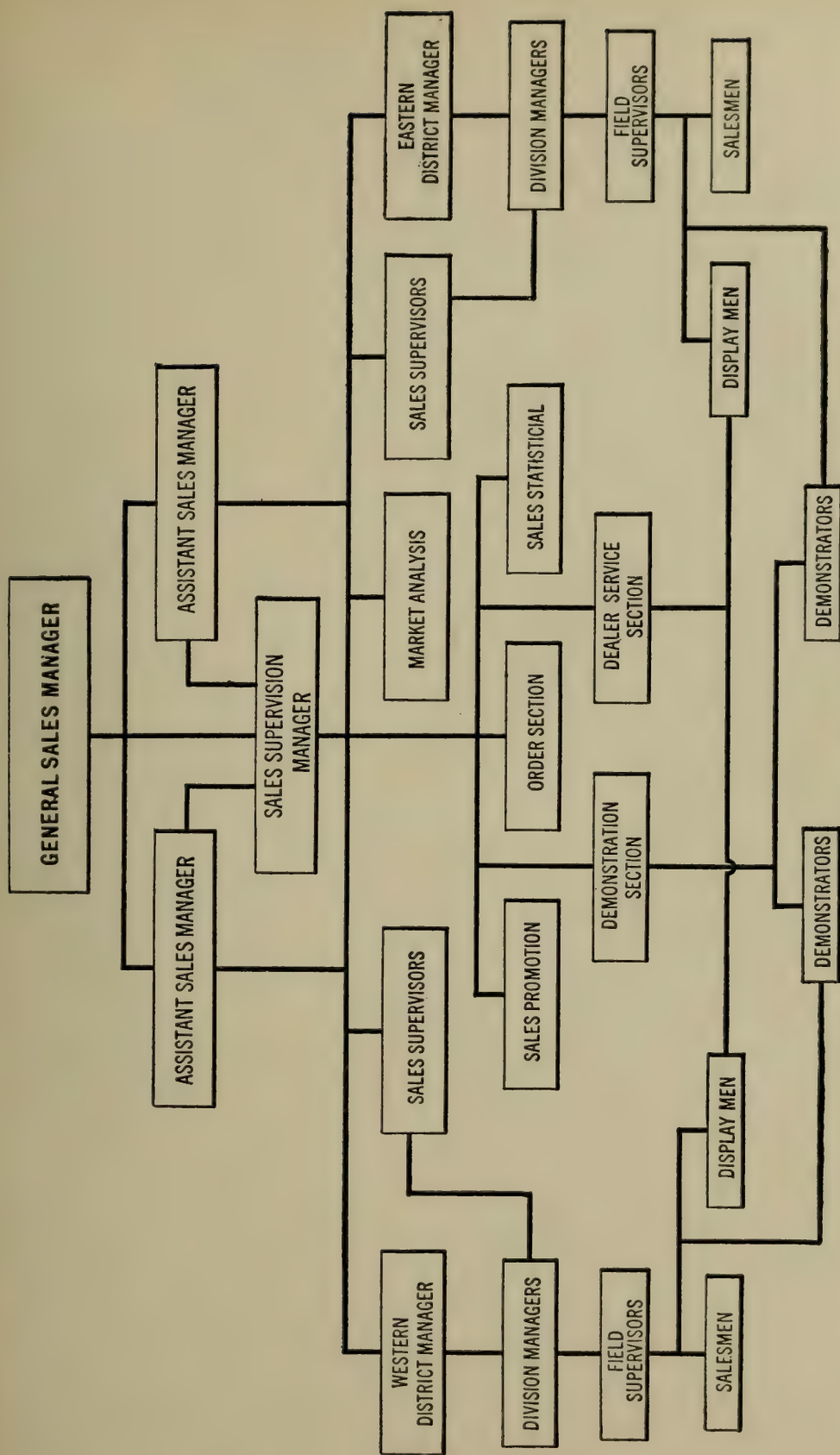


FIGURE 15. FUNCTIONAL ORGANIZATION OF MARKETING

This is the operating chart of the marketing activities of a company selling consumer goods. Here, there is evidence of an attempt to divide marketing tasks into their logical constituents. It is easy to criticize a chart like this, but it is hard to take an organization which has been operating successfully, and make basic changes.



as well as a routine order of procedure which will automatically bring about coordination as hereafter described.

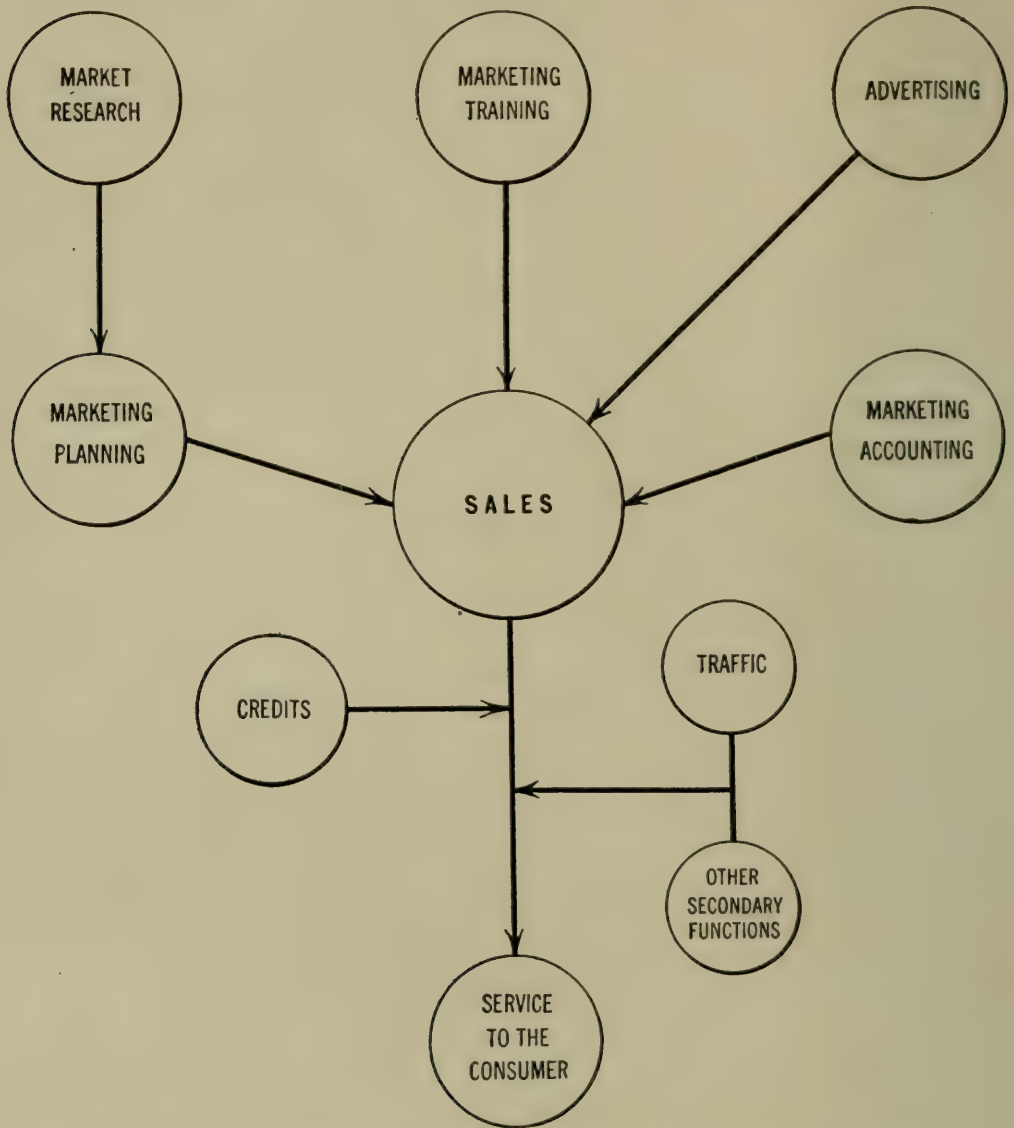


FIGURE 16. ELEMENTS OF THE SCIENTIFIC MARKETING SYSTEM

The attempt here is to show the basic marketing functions, broken down in accordance with a plan for building a smoothly working organization. The relationships are but roughly indicated, and will vary widely, according to the company's needs.

**The System in Operation.**—Fig. 16 shows the elements of the scientific marketing system, reduced to its simplest terms. That is, in any representative manufacturing concern, the functions shown on the chart constitute the logical basis for depart-

mentizing the Marketing Division, and normally they will follow the sequence there outlined.

Since research is the pioneer step in marketing, the Market Research Department deserves first consideration. In this department the facts of the market are examined and reported upon, the amount of business to be done is determined, and the methods whereby the business may be obtained are determined.

The findings of the Research Department are handed on to the Marketing Planning Department, where they are built into a constructive and dynamic program. This department is responsible for determining the best way of obtaining business from the market as it has been disclosed through market research, and also for indicating the tactics by which this end may be accomplished.

Before plans can be put into effect, trained personnel must be provided. This presupposes a properly functioning Marketing Training Department. Once supplied with suitable manpower, the Marketing Division can operate effectively. Training should be regarded, however, as an end as well as a means. Training is, to a degree, the basic and underlying feature of the entire system of Scientific Marketing.

The instructions of the Marketing Planning Department are delivered through the Marketing Manager to the Sales Department and to the Advertising Department, both of which have as their sole duties the carrying out of these instructions and the reporting back to the Planning Department or to the Marketing Manager the progress which has been made.

The next function is that discharged by the Service Department, which exists in order to represent the interests of the consumer, both before and after the sale. Thus the Service Department takes charge of relations with and service to dealers. In this way the consumer's wants are better satisfied.

The necessity of supplying suitable machinery to take care of marketing costs will make it desirable to have a Marketing Accounting Department. For example, the very basis of a chain-store system is its cost-accounting system. The same holds true of every seller who goes direct to the consumer or who sells to a great many dealers.

The above are all primary functions of a universal nature, and to be performed by every company. There are, in addition to

them, certain other secondary functions for which it may prove desirable or even essential to provide a departmentized group.

Where the number of buyers is large, a special Credit Department may be organized under the Marketing Division.

If shipping problems are an important part of the marketing procedure, then this function also should be separately organized and placed preferably under the Service Department.

There is some logic in placing purchasing under the control of the Marketing Division, arguing from the example of the department-store buyer who performs both the buying and selling functions. This disposition of purchasing is not probably advisable in the majority of cases, since the peculiar needs of the Production Department are best served by someone connected with it and in close touch with it. Scientific marketing does not aim to reduce production to a negligible factor, but merely to take charge of those functions which normally belong to it.

**Combining Departments.**—One of the first questions which comes up when the installation of scientific marketing system is considered has to do with the possibility of combining several of these functions into one department. For example, it seems to many at first sight that Market Research and Marketing Planning might well come under one department, because to the uninitiated there seems to be a certain similarity between these two functions. There are, however, potent reasons for keeping these and the other functions separate and for having those in charge of them report individually to the Marketing Manager.

If functionalization is to prove effective, it must be rigidly adhered to. If two functions which are admittedly different are combined without continuously identifying the differences between them, confusion at once results. Combining departments, while apparently a process of simplification, may in reality create complexity and waste. The lines of authority and the definite order of procedure become entangled. And it is difficult to find men able to perform both functions with equal satisfaction.

In the second place, the division of functions according to departments gives a desirable balance of authority. If Marketing Planning and Market Research were united, too much authority would be vested in the chief of the resultant department. Where they are separated, however, the Market Research Department



hands to the Marketing Planning Department all the data upon which plans are laid, so that the Sales Department cannot accuse the Planning Department of having issued instructions which are not in keeping with the potential business available to the company.

It is important to stress again the fact that the word "Department" does not necessarily mean a large group of men. It may in some cases consist of one man alone.

The question also will arise as to whether the Marketing Manager shall do the planning. If his position is assumed to be like that of the Prime Minister of England, he can take charge of some particular department, while at the same time being the chief of all of them. In other words, his name would appear twice on the organization chart. Unless the company were quite small, however, such a procedure would not be wise. If, on the other hand, the routine of the Planning Department, as hereafter described, is well established, then it is conceivable that the Marketing Manager might also be titular head of the Planning Department.

**The Marketing Objective.**—One of the most difficult things to do in introducing a system of scientific marketing, and yet one which must be done at the outset, is to determine the marketing objective—that is, precisely what the company's policy shall be with respect to the marketing of its product. In the past, this has usually seemed a simple problem, namely, to sell the product as widely and in as great volume as possible. But such a policy can no longer be accepted on the face of it as sound. In most cases an objective based on a more scientific analysis of distribution problems will have to be set up.

One of the concrete difficulties about defining this objective is that it will have to be expressed not only in abstract and general terms, but that it will have to be reducible to quantitative terms. At least, there must be factors or indices susceptible of mathematical expression, since the whole structure of scientific marketing depends upon standards which are absolute and measurable.

The standards must be the outgrowth of the marketing policy. The task outlined for every man in the organization must be built upon these standards. Tasks must be measured, and measured in units which are readily computed and easily understood. The success of the entire system depends upon suitable formula-

tion of these standards and, unless this can be done, it is better to hold to the old plan of measuring performance merely in terms of units of sales. Indeed, one admirable feature of a meretricious system was that results could readily be computed. A man had sold so many units of the product or so many dollars' worth of goods. There was the evidence beyond dispute.

As a measure, the old standard was perfect, as far as it went, and from the standpoint of managing men it was all that could be expected. The fault with mere volume as a measure of success, however, is that, in most cases, it is no longer a true measure of success. There are other elements which must be introduced into the formula.

It is important to have a general policy, but it is also essential to have minor, or supporting, policies. Taken together, these should be adequate to cover every situation which may arise. Anyone conversant with these policies should be able to cope with any circumstances to be met with in his work. This may be contrasted with the usual state of affairs, where operations are based on traditional methods rather than on principles and policies. The average concern does not even have a clearly defined marketing objective, not to speak of a code of marketing policies.

Here and there are exceptions where a company has a regularly defined sales policy. For example, the Atwater Kent Manufacturing Company, by means of personal interviews with wholesalers, retailers, and consumers of every class, supported by over 4,000 questionnaire returns, and by means of a study of competitive merchandising, has formulated a sales policy which, being one of the few in written form, is worthy of careful study. It is divided into six headings, with definite statements under each:

1. Product. This is shown and explained in an advance bulletin service to the trade and in the company's advertising and literature.

2. Prices and Discounts. The company adopts the policy of a single maximum discount to the recognized wholesaler of Atwater-Kent radio products stating that, in its opinion, sliding scale, preferential, and special discounts are detrimental to all concerned. The company suggests to the wholesaler that he give dealers a flat maximum discount without exception.

3. Contract and Franchise. All contracts for wholesalers are put



in definite written form, outlining territories and explaining the quota system used.

#### 4. Distribution, Wholesale and Retail.

- a. General. The only channels of distribution will be the established bona-fide radio wholesaler and retailer. The company gives as its opinion that servicing of radio is of greater importance than ever before, and that the musical trade is a factor of increasing importance.
- b. Territory and Protection. The United States are divided into ten principal territories, subdivided into logical distributing areas. Districts have been laid out by careful examination of geographic location, transportation facilities, population, wealth, and topography. It will be the policy of the company to protect all wholesalers of the company from shipments into their territories by wholesalers from other territories. The number of retailers to be established will be determined by wholesalers, considering the population, wealth, locality, and success of the dealer. On the whole, smaller territories and more intensive merchandising are planned.
- c. Sales Quota and Probable Business. Each sales district is assigned a definite and reasonable sales quota, determined by number of families, number and classification of income-tax figures, checks against past season's business. The company believes it reasonable to expect the sale of one receiving set and speaker to every 250 persons or 60 families, subject to variation in different territories.

5. Advertising and Sales Promotion Helps. A small charge is made for literature and display aids. A complete national advertising campaign for summer and fall, covering every class and trade, has been prepared. A complete cooperative newspaper advertising campaign has been outlined. Twenty-four-sheet posters are to be continued; also radio broadcasting. A bulletin service of approximately 50,000 copies a week will cover sales helps, technical items, and details of interest to the trade. A monthly broadside service, a general selling booklet, a group of envelope stuffers and descriptive leaflets, and a general instruction booklet, as well as window displays and signs, will also be furnished.

6. Cooperation. A policy of prompt shipment, prompt handling



of repair material, and few changes in standard equipment is adopted. Wholesalers will be helped to analyze their respective territories on a monthly sales basis. All radio equipment will be covered by complete warranty. Inquiries will be referred to wholesalers in proper district.

Although this sales objective has been prepared for scrutiny by distributors, it contains, nevertheless, a definite statement as to many points which are usually left undetermined. It shows that, even under the old system, statement of the marketing objective is of great service. It is interesting to note the stress laid on service and quotas, both of which form an essential portion of the scientific marketing system.

Examples of carefully planned marketing objectives are becoming more frequent; a few years ago they were unknown. For instance, a manufacturer of pumping, lighting, weighing, and power equipment for the industrial market made a survey which resulted in adopting certain policies.<sup>1</sup> The company worked these out as follows:

1. Mapped out those markets which can use a group of its products rather than only one product. This gives twenty-six major markets, each of which offers a logical field for concentrated selling.

2. Worked out a plan for getting thorough advertising coverage of these markets for the group of products that each can use.

3. Trained salesmen to recognize that the twenty-six markets must come first in selling. Showed them that sales volume is obtained most economically by getting the industrial buyer in these markets to plus his purchase instead of buying only one of the company's products.

4. Built prestige for the company by putting advertising power behind the idea that it has a complete and dependable service to industry rather than machinery to sell.

In preparing a statement of objectives for a company practicing scientific marketing, one fundamental element must be considered. The best interests of the consumer must always be held first. Where a customer does not consume the product himself, but resells it, his interests should be considered only in so far as they are designed to benefit the ultimate consumer. This must

<sup>1</sup> See *Printers' Ink*, March 18, 1926, p. 57, for full details.

be the controlling principle, not only in marketing, but in the entire business.

**Standard-practice Instructions.**—The major and minor objectives must be carried out by means of standard-practice instructions. Every job should be provided with complete instructions for its performance. Nothing should be omitted and little left to the imagination. Many men feel that such a degree of standardization is not desirable and that it is better to give each man free rein. Where there can be no close control of salesmen's activities, such a plan may prove better, although it entails the selection of a higher type of employee and thorough training. But where a properly planned system has been worked out for marketing control, too much freedom must not be given to individuals. Fig. 17 is an example of a standard-practice instruction card.

In regard to standardized selling talks and standardized procedure set forth in sales manuals, there is a difference of opinion. Scientific marketing, however, accepts the principle that every salesman should be provided with a more or less standardized selling talk. This is not because of any lack of faith in the individual salesman's ability, but purely because for each product there are certain methods of approach which will facilitate the sale. It cannot be denied that there are special cases where no amount of standardized practice will avail, and where the ability of the individual salesman will be the only criterion for handling the situation properly. But on the average, and it is the average which counts in the long run, the standardized process will bring best results.

Almost every sales manager of the old school can cite instances of where a salesman on his own initiative has made a wonderful record. Before accepting this at its face value, it would be well to ask certain questions. What were the total potentialities in comparison with the total sales made? Were the minds of the buyers made receptive in advance by some means or other? What was the percentage of returns? In other words, what was the underlying reason for this great personal or individual success?

The best method of incorporating standard-practice instructions is in the sales manual. This is treated in Chapter X. The manual is not designed purely for training purposes. It must serve also as a handbook of practice.



NO CHANGE MAY BE MADE IN THE STANDARD PRACTICE AS SET DOWN BY THIS INSTRUCTION CARD WITHOUT THE PROPER AUTHORIZATION FOR THE CHANGE.

FOR CARRYING OUT STANDING ORDER NO. \_\_\_\_\_

NO. OF SHEETS \_\_\_\_\_ SHEET NO. 1

**WHO IS TO DO THIS WORK**

Receiving \_\_\_\_\_ Marking \_\_\_\_\_ Marking Porter \_\_\_\_\_

**WHAT IS TO BE DONE (IN DETAIL)**

**SUBJECT: TEMPORARY INSTRUCTIONS FOR PORTERS**

**I. Handling of corrugated cartons that are held together by tape alone.**

**II. Handling of corrugated cartons that have all four sides glued or glued and stapled or stapled alone, and taped or not, in addition.**

**III. Handling of corrugated cartons that are held together by tape in the middle of the top and bottom and on the sides.**

**a) Opening Carton**

**CUT ON THE "RED" LINE**  
1. Insert your knife at one end of the tape line on the top surface. Draw knife across the tape line, withdrawing knife.

**b) Folding Carton**

Fold flaps back.

**c) Emptying Carton - Take mds. from carton as now.**

**d) Cutting bottom & Folding back**

Turn carton on side and cut the tape line at the bottom exactly as you did at the top, in opening the carton. Then fold the flaps back.

**e) Collapsing the Carton**

Press the carton flat.

**a) Opening the carton**

**CUT ON THE "RED" LINE**  
Cut the three sides, 1, 2, 3 shown in the diagram. The fourth side which you have not cut should be one of the long sides if the sides are of unequal length. This is done because it leaves a longer hinge and the weight of the cover is less apt to break the cover off.

**b) Folding**

Fold the cover back.

**c) Emptying Take mds. from carton as now.**

**d) Cutting bottom & Folding back**

Turn carton on side and cut the three sides at the bottom exactly as you did at the top in opening the carton. Then fold the bottom back.

**e) Collapsing the Carton**

Press the carton flat.



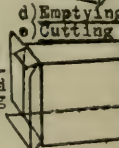
a) Opening



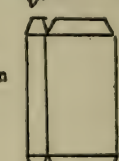
b) Lifting Cover



c) Folding



d) Emptying



e) Collapsing

**CUT ON THE "RED" LINE**  
1. First cut the two edges of the top cover as shown in the diagram at 1 and 2.  
2. Place your hand inside the carton thru one of the cut edges. Lift the cover upward and cut the center tape line with the other hand. By doing this the danger of cutting the mds. inside the carton is removed.

Fold flaps back carefully.

Take mds. from carton as now.

**d) Emptying**  
**e) Cutting bottom & Folding back**

Turn carton on side and cut the tape line at the bottom exactly as you did at the top in opening the carton. Then press the carton flat.

Flattened Carton

These instructions apply to all cartons except very small ones as shown. PLACE COLLAPSED CARTONS ON TRUCK AND DAILY AT 10 O'CLOCK PUSH TO ELEVATOR 47. Your work should be done carefully so as not to cut packages or merchandise.

ISSUED BY A. S. Donnell DEPT. AND DIVISION \_\_\_\_\_  
PREPARED BY \_\_\_\_\_ DATE Sept. 21, 1926 TYPED BY HF  
PLANNING DEPARTMENT  
(Per - W. J. Pilat)

FIGURE 17. STANDARD-PRACTICE INSTRUCTIONS

This instruction card is the carefully worked-out procedure recommended by the Planning Department as the result of a study of methods of operation. The entire plan is very like that used in factory practice.



**Time Standards.**—Marketing cannot be reduced to a time basis pure and simple, as in production, where it is possible to control quality and to make time practically the only variable. A workman may be expected to turn out a job of certain specifications and standards within a certain given length of time; but it is not yet possible to go so far as this with the tasks of the Marketing Division. There are other factors present of a variable nature, such as personal relations, and these cannot be measured satisfactorily in quantitative units.

There are some time standards which may, nevertheless, be set up. One method is to base these on past records, but a better plan is to choose one man of average ability and study carefully the time it takes him to carry out the various operations involved. Thus, in selling, the following operations should be studied and timed:

1. *Preliminary Work.* The salesman's preliminary work should be reduced as much as possible by having prospect cards prepared at the office, and perhaps also by the use of a junior sales force. Everything that can be done in this way will make possible an increase in the salesman's efficiency.

2. *Time in Travel.* By planned routing, a standard can be set up for the amount of time necessary to spend in travelling.

3. *Time in Securing Interviews.* Certain allowance must always be made for securing interviews. This may be reduced in many cases by careful advance preparation through letters or advertising.

4. *Time in Selling.* While no two sales interviews or series of interviews may occupy the same length of time, analysis of a number of them will serve to set up an average time.

5. *Time in Rest Periods.* Even more than in production or office work, fatigue will impair the efficiency of the salesman. He should, therefore, be allowed sufficient time for relaxation and recreation.

Fig. 18 shows how studies of time can be made, not only for salesmen, but also for executives.

**Task Standards.**—Careful analysis of time standards will allow a daily or weekly task to be set before every man in the Marketing Division. This should apply to everyone, regardless of his position. As Frederick W. Taylor says: "There is no question that the average individual accomplishes the most when

DATE JUNE DEPT. SALES  
 NAME S. J. HUDGINS 100%

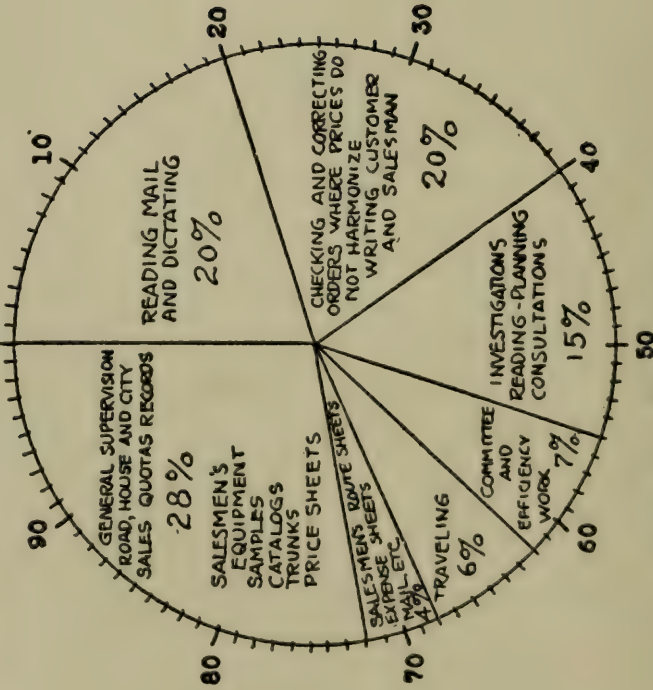


Chart of SALES MANAGER

DATE 6/22 DEPT. J-17-18-19  
 NAME L. C. SPILLMAN 100%

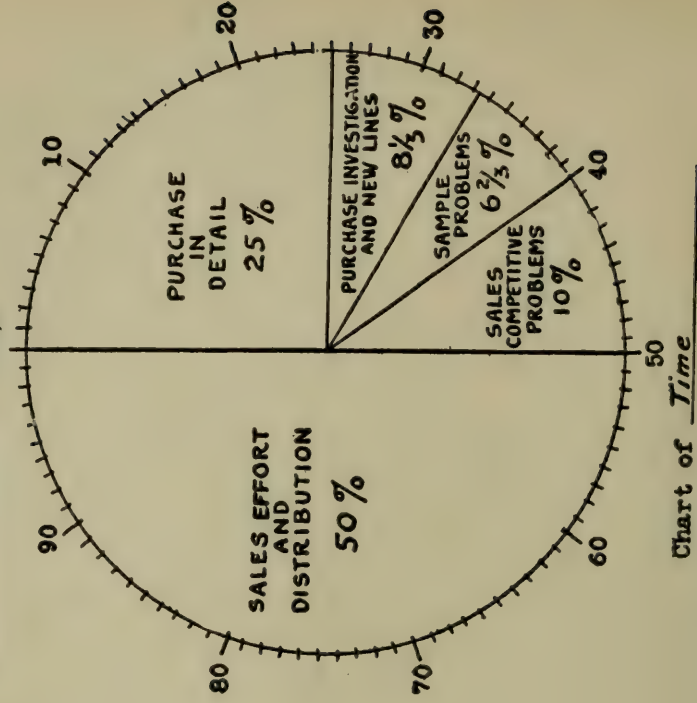


Chart of Time

FIGURE 18. TIME STUDY AS A BASIS FOR TIME STANDARDS

The above chart shows how time studies were made in the Moody organization. This is an excellent method of bringing out duplication of effort and also indicates how little of the sales manager's time is actually spent in the work of sales management.

he either gives himself, or some one else assigns him, a definite task, namely, a given amount of work which he must do within a given time; and the more elementary the mind and character of the individual, the more necessary does it become that each task shall extend over a short period of time only."

In order that the task may be accomplished, the conditions of work should be as favorable as possible, and should be, moreover, reduced to a standardized and known basis, uniform for all those men doing a given class of work, so that all shall be on an equal footing. Since the accomplishment of the task will involve the individual's best efforts, high remuneration should be given for fulfilling the task; but failure to perform it should involve a penalty.

Task setting for the Training, Research, and Planning Departments must be largely of a general nature. For the salesman, it may include the following:

1. Number of calls to be made per day. It has been demonstrated frequently that the number of calls has a decided effect upon the volume of sales made. Time and task studies will indicate the proper number of calls to be made by each salesman, allowing for special circumstances, such as distance between calls.

2. Volume of sales. This may be taken by weekly periods and will be measured in the form of a quota. It will rarely be the only task standard, since volume of sales does not normally satisfy the principle of objectivity of demand.

3. Duties concerned with satisfaction of the consumer. The salesman, for example, may be required to render certain services to customers as a regular part of his task.

**Quotas.**—Time and task standards are combined into quotas. The essential feature of a scientific quota system is a thorough understanding of the market. The quota is that proportion of its market which a company may reasonably expect to sell during a stated interval of time. It is obvious that the first step in quota-setting is an accurate market analysis. The management which has the basic facts regarding its market at its fingertips is in a position to make demands, rather than requests, of its sales force. Failure to understand the very basis of the quota puts the company in a weak position in dealing with its salesmen.

The essentials of a successful quota system are that it should



be based on an analysis of the present market, a forecast of the market for the quota period, and on a reasonable and workable set of standards for each individual who has to do with its attainment. The goal set should be one which a first-class man may reasonably expect to reach, provided he exerts himself and provided he has the constant support and cooperation which are essential features of any system of scientific marketing.

To sum up, the quota should be based on known facts, these facts being in possession of the management. Above all, the goal to be attained and the speed at which the salesman works must be set by the management and not by the salesman himself.

Perhaps the most dangerous feature of the usual quota system is that it is, of necessity, based on statistical computations, of one sort or another. It is important to take steps to correct any impression on the part of the salesman that mere volume is the inevitable desideratum. Fundamental instructions (standing orders) to the sales force should set forth the basic marketing policies and objectives of the company, without which no intelligent operations can be started or plan of task management be made feasible.

In setting up quotas, it is desirable to keep each salesman informed of the results which he is obtaining, without undue delay. Furthermore, the tasks set him should be so arranged as to appear reasonably attainable within a comparatively short space of time. Far-off goals are much more difficult to visualize, and often appear beyond the man's reach. In setting quotas, it has usually been found better to deal with each salesman individually rather than as a member of a group.

Arrangements must also be made for measuring results against the standard set. For this purpose the Gantt chart is ordinarily the best. Fig. 19 illustrates an executive control chart coordinating selling and production on a quota basis.

**Methods of Setting Quotas.**—There are many possible methods of computing quotas, both simple and complex. A simple case is that of spare or replacement parts. Here the market is easy to calculate. But in many other cases the factors which enter into quota-making are extremely complicated.

L. D. H. Weid, formerly manager of the Commercial Research Department, Swift & Company, outlines the following method:<sup>1</sup>

<sup>1</sup> *Printers' Ink*, April 29, 1926, p. 165.

EXECUTIVE CONTROL CHART.

V

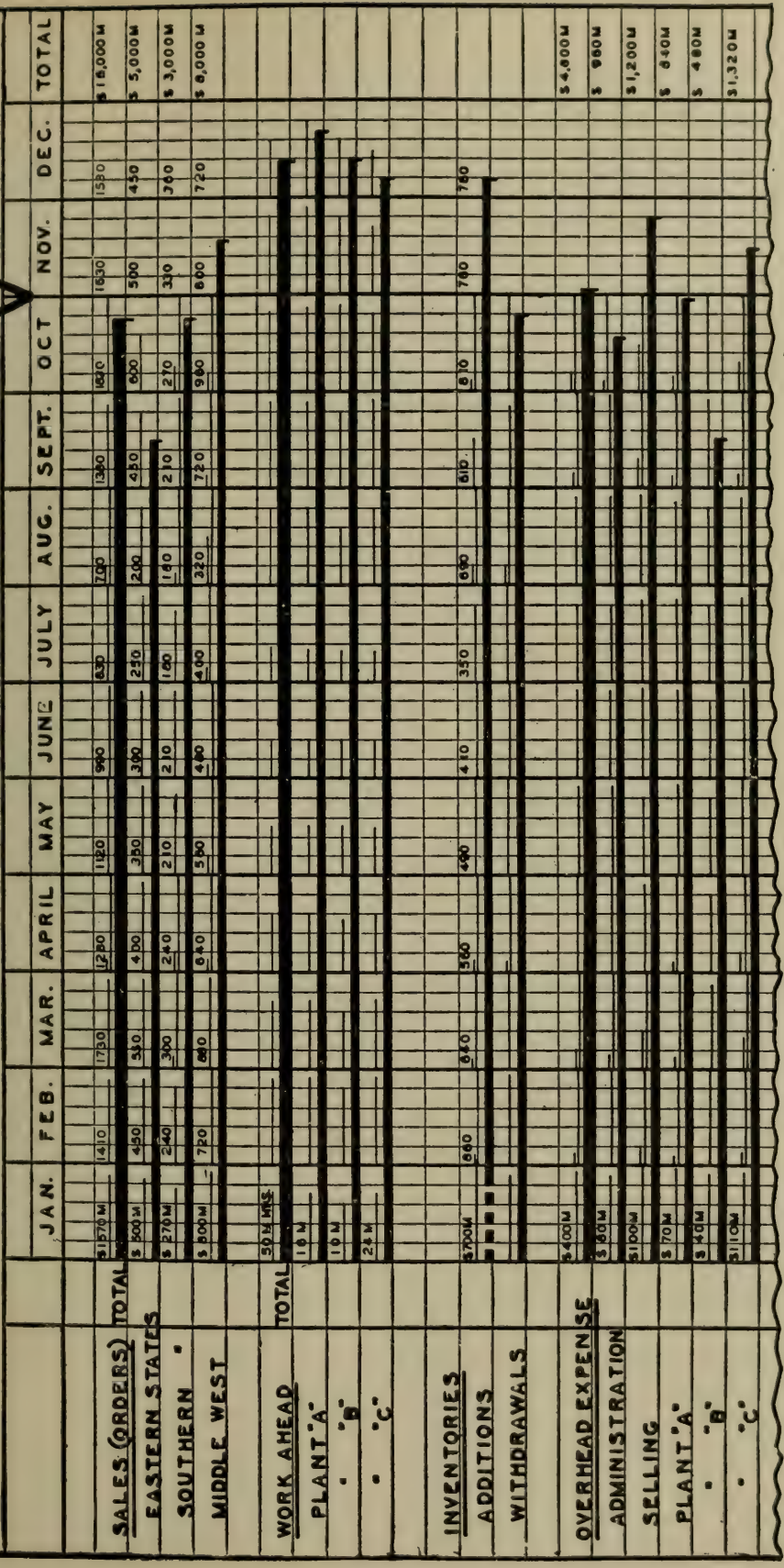


FIGURE 19

This chart is used in the control of a company which manufactures three products. Figures at left of monthly columns represent the quota, schedule, or budget for the month. Figures in last column headed "total" indicate cumulative schedule. Light lines represent actual sales: expressed in a ratio, the light line is to the monthly space as the actual sales are to the quota. Heavy lines show actual performance to date.

The "V" at the top of sheet indicates that chart was photographed after the October records were entered. If a heavy line extends to the right or left of the "V," the activity has exceeded or fallen short of the standard.

(Wallace Clark, American Machinist, Feb. 18, 1926)



The percentage of total sales in each county or sales district is used as a basis, using fifty or one hundred sample counties. Then in each sales district the percentage of total population, number of native whites, number of automobile registrations, number of magazines, number of retail outlets, or other pertinent factor is recorded. A curve is plotted for each set of data, compared with the basic curve to see which ones correspond most exactly. Three or four of the facts which correspond most nearly are chosen for combining. If a simple average is used the computation might be as follows:

Past sales .....	1.5	per cent
Population .....	1.9	"
Number of retail outlets .....	1.3	"
Number of income-tax returns .....	2.1	"
Magazine circulation .....	1.7	"
<hr/>		
Average of four factors .....	1.75	"

The result of this computation would indicate that sales in the district in question should be increased from 1.5 per cent to 1.75 per cent. After theoretical quotas have been established for each sales district, allowances and adjustments must be made to take care of strength of competition, thoroughness of company distribution, or business conditions. Mr. Weld advises the use of a weighted index, provided it can be done scientifically. H. G. Weaver of the General Motors Corporation has developed a purchasing power index of each county in the United States, based on scientific analysis.<sup>1</sup>

Even after the general market has been computed, it is often a difficult matter to say how much of the business should go to any one company. The final step in the quota is to assign a definite amount to each salesman. The records of the company should show the relative capacity of each of its salesmen. The H. H. Franklin Manufacturing Company grades salesmen into:

Class A, men who sell \$100,000 worth of merchandise, or 40 new Franklin automobiles.

<sup>1</sup> See description in *Harvard Business Review*, April 1926, p. 276. This article describes clearly the choosing of the various factors to make up the index, their combination into a practicable index, the application of the formula outlined, and a discussion of the defects, limitations, and criticisms of purchasing-power analysis.



Class B, men who sell \$75,000 worth, or 30 cars.

Class C, men who sell \$50,000, or 21 cars.

Thus if a certain territory has a quota of 300 new cars, the dealer must have either 8 Class A men, 10 Class B men, 15 Class C men, or, what is more frequent, a force made up of part of each. The Franklin Company keeps a record of the number of salesmen employed by each of its dealers, so that it can immediately tell whether they have enough salesmen to complete their quotas.

**Supporting the Personnel.**—The result of a system of marketing, where the objective is clearly stated and standards are scientifically set and measured, is to give the management a definite knowledge of facts. It knows in definite terms not only the nature and extent of the market and where the business is to be obtained, but also how much of it each man should secure as his portion. To repeat, the management should be in the position of informing salesmen of conditions rather than having to depend upon salesmen for such data.

This does not mean, of course, that the management will have the minute details of its market at hand, nor does it mean that the management will know more about a given isolated situation than the salesman. In the interests of keeping the management informed, provision should be made for complete reports of progress, not only from the salesmen, but also from all members of the Division. These reports should be digested and incorporated into the management's records, to be kept as hereafter described in the files of the Market Research Department.

Scientific marketing deliberately aims to substitute a system for the old personal relationships. In return for the necessarily impersonal character of this new plan, where progress is rated solely on accomplishment, it is necessary to provide for full co-ordination and support between all branches of the marketing division. How this control is exercised is described in the following chapter.

## CHAPTER IX

### THE CONTROL OF SCIENTIFIC MARKETING

THE Marketing Manager, as executive head of the Marketing Division, guides the machinery of control. By means of conferences and committees he coordinates the activities of the various departments. By a system of reports he supervises and directs, and maintains a consistent level of performance.

The Marketing Manager has a corps of assistants and subordinates which takes care of the routine activities of control. Scientific marketing calls for more strict supervision than has been the case under the old plan, but the details of this supervision, once having been worked out, can be handled by subordinates. Only when there is a deviation from the standard must they be called to the attention of the executive.

Control is exercised mainly in three ways—by supervision, discipline, and remuneration.

Supervision prevents the slipshod performance which so often prevails in sales departments at present. Every man in the organization knows that what he accomplishes is a matter of record. There is no opportunity for him to soldier on the job or to make excuses.

Discipline is the outgrowth of supervision. This is an exceptionally difficult problem, due to the caliber of men found in the Marketing Division.

It is chiefly by means of remuneration that control is exercised. High monetary remuneration is held to be desirable; systematic promotion is also made a definite part of the procedure. The chief difficulty here is to devise some system of remuneration which will provide the greatest sales stimulus, and, at the same time, safeguard the interests of the consumer.

**The Marketing Manager.**—The Marketing Manager is the chief executive of the Marketing Division. It is he who is, in the final analysis, responsible for the success of scientific marketing; he forms the pivot of the system. His duties are chiefly

those of a line officer, whose duty it is to direct, coordinate, maintain, and measure. No one should be appointed as Marketing Manager who is not fully competent to meet these requirements.

The first major function of the Marketing Manager is to *direct*. It is his duty to select the heads of the various departments, and upon his judgment will depend in great measure the strength of the organization as a whole. One of the tests of a good executive is his ability to choose subordinates who will carry out the policies of the company and work with him rather than for themselves. The functional system of organization demands experts and specialists at the head of the staff departments who are competent to manage these with a minimum of supervision. It is the duty of the Marketing Manager to exercise this supervision.

While direction implies supervision, it also calls for leadership. The personality of the Marketing Manager will be a primary factor in building up the morale of the organization as a whole, and in enlisting the whole-hearted support of the personnel in behalf of the scientific system of marketing.

The second function of the Marketing Manager is to *coordinate*. Coordination is an unusually important duty of this official. On the one hand, he is the connecting link with the other divisions of the company; on the other hand, he is the head of the departmentized marketing functions. He must, therefore, be a good organizer; he must be able to create the machinery of coordination, appoint the requisite committees, and see that they carry out their functions. He must, furthermore, be an expert in the methodology of coordination. He must be possessed of tact and of a personality which will win cooperation. However perfect the plan of organization, it must fail unless the mechanism of control functions with smoothness.

E. H. Schell<sup>1</sup> says there are three primary executive traits essential to success: First, an innate interest in and affection for people, second, a certain strength or power of personality, and third, a scientific trend of mind. In order to be a good coordinator, the Marketing Manager should be possessed of these three traits, which will enable him to take the varied functions of marketing and weld them into a unified organization, work-

<sup>1</sup> *Technique of Executive Control*, McGraw-Hill Book Company, pp. 9-11.



ing towards definite objectives, without duplication of effort, and with the minimum of waste and inefficiency.

The third duty of the Marketing Manager is to *maintain*. He must see that policies and standards are kept up, and that output is kept at a high level. He must keep constant check on the activities of his division. He must see that each department holds to those objectives which have been set before it. Through a simple but rigorously maintained system of executive reports, he must keep in touch with all branches of his Division.

The fourth function is that of *measuring*. The Marketing Manager must see that the objectives and standards of scientific marketing, already described in the previous chapter, are used for purposes of measurement. Measurement is necessary for purposes of meting out rewards, and for many other purposes.

**Who Shall be Marketing Manager?**—Since the position of Marketing Manager is one of primary importance, the question of his selection and appointment can hardly be given too great attention. There are several possibilities.

In many ways, the old Sales Manager would seem the logical person to be advanced to the new position. He has been the one in charge of sales activities and has the most intimate knowledge of the company's marketing affairs. Except in rare cases, however, the Sales Manager is not the best person to select for Marketing Manager. The ordinary sales manager is likely to be a good salesman or a good manager, but it is rare for him to be both. He is so occupied either with selling or with managing salesmen that he loses the true perspective essential to the administration of the broad marketing problems of a large company. Furthermore, there are innumerable minor duties falling upon his shoulders as the result of the failure to provide a properly functionalized staff. Finally, the Sales Manager is, under ordinary conditions, so thoroughly imbued with the principles and practice of the old-style marketing that, even with the best will in the world, he finds it extremely difficult to adapt himself to the new ways.

Another possibility is to have some member of the firm take the position of Marketing Manager, preferably one who has been a prime mover in establishing the new system. He is likely to be possessed of the executive qualifications, although perhaps lacking in the scientific knowledge of marketing. The latter diffi-

culty may in some cases be overcome, since, if he possesses the executive qualifications, he can learn the technique of marketing procedure. To take a member of the firm, however, would ordinarily be a gambler's chance. It is doubtful whether he could disassociate himself sufficiently from his position as part owner and administrator. The job of Marketing Manager in a manufacturing concern is still too novel an idea and too little applied to permit much hope of success from a manager chosen within the company.

There remains the possibility of taking a Marketing Manager from without the company. The business man should not overlook the fact that management, as such, is rapidly becoming a profession with its own principles and codes. Thus, the Marketing Manager and the Production Manager will possess almost identical qualities, with the exception of the character of the technical knowledge.

One logical procedure would be to appoint the man hired to reorganize the company's marketing system as Marketing Manager. This is what, in effect, he would be. Another practical scheme is to give him the assignment of finding and training a suitable Marketing Manager to take his place when the reorganization is completed. Once the system is in operation, these matters will more or less adjust themselves. The chief difficulty lies in the initiation of the system, and so much of its success depends upon the Marketing Manager that the company cannot afford to take chances. It should hire the best talent that money can buy.

**The Marketing Manager's Office.**—Once the Marketing Division has been properly organized, it should be unnecessary for the Marketing Manager to devote himself to details unless these present some exceptional problem or are out of the ordinary routine. In case such details indicate a need for a change in procedure, then it will, of course, be essential for him to assume charge of it. It is a mistake, however, to insist that all papers and all routine pass over the Marketing Manager's desk. A feature of the system is to provide an ample corps of assistants who can do the routine work for him.

Thus the personnel of the Market Manager's office in a medium-sized concern would include the following:

1. An Assistant Marketing Manager, who is being trained



to take the Marketing Manager's place eventually, will supervise many of the routine duties. He will interpret many of the reports made by the various departments and bring up to his chief those which require his concentrated attention. The Assistant Marketing Manager will also be prepared to take his superior's place on committees and in conferences. Since, as explained later, the material for these committee meetings is planned in advance, the Marketing Manager will know ahead of time how important it is for him to be present.

2. A Private Secretary, fully conversant with the system as installed, in all its details, who will see that the necessary reports are prepared and ready for the Marketing Manager at the appointed time. He may also act to transmit the assignments to the various staff and line departments which, as a matter of form, go through the Marketing Manager's office.

3. Sufficient stenographers and file clerks must be employed to take care of the office work without delay.

There will probably have to be certain physical changes in the floor layout of the Marketing Division. The regrouping of functions will naturally entail a new arrangement. The Marketing Manager must have a private office, preferably adjoining the general committee room. The Research and Planning Departments should have their own separate quarters, as they are engaged in work which requires concentration and seclusion. The Sales Manager should have a desk in the same room with his men. Everything which would tend to keep him apart from his fellow workers should be discouraged.

**The Committee System.**—Control is centralized in the Marketing Manager, but to exercise effective control it is necessary to know at all times what is being done in the Division. Part of this information can be derived from reports, but the most important part comes as the result of committee meetings and conferences.

As is pointed out by Oliver Sheldon,<sup>1</sup> committees are of four kinds. The executive committee makes decisions upon matters brought before it, but cannot act. The advisory committee brings together certain individuals who can give special guidance. The educative committee serves to keep the staff notified of events and policies. The coordinative committee is composed of repre-

<sup>1</sup> *The Philosophy of Management*, p. 123.



sentatives of the various functions who come together to insure cooperation between themselves.

As Sheldon says, *apropos* of factory management, "A functional organization cannot operate without committees, such committees being primarily of a coordinating nature." The same statement holds true of a functionalized marketing organization. The make-up of the majority of the committees should be determined, in so far as possible, by function rather than by personalities.

The larger the organization becomes, the greater is the need for coordination. In very large concerns the time of the Marketing Manager will largely be occupied with coordinating the work of his various departments. Hence the formation of committees, in which the subjects for discussion are of vital import.

Theoretically, the Marketing Manager will need no advisory committees, since the head of each department is a specialist in his own field. Nor will the executive committee occupy a position of much importance in the work of the Marketing Division. Committees will be mainly educational and coordinative.

The idea of committees in sales work is by no means new. For example, in the organization of the Lever Brothers Company, of Cambridge, Massachusetts, the General Sales Manager and his two Assistant Sales Managers comprise a Board of Sales Planning and Strategy, which keeps the Market Analysis and Sales Promotion Sections busy a great portion of the time in the compilation of regular and special figures. In this way, the Board may operate with the fullest possible knowledge of the general situation. It is safe to say, however, that the functional committee plan is relatively new, and does not lie open to the objections so often brought against the committee system as it works now.

There will, in the Marketing Division, be permanent and special committees. The permanent committee will be composed of the heads of each of the functional departments plus the Marketing Manager and his assistant. All plans and policies, or changes in organization, or important matters of any kind which concern the Division as a whole, will be brought up before this permanent committee, not so much for discussion as for purposes of announcement. In fact, unless some department has a special interest in this change of policy or other change, the permanent

committee meetings will be in the hands of the Marketing Manager for educative purposes.

There may be other permanent committees comprising only some of the departments. Thus the planning, sales, and advertising department heads will constitute a special committee, meeting at appointed times, to discuss common problems and to outline a method of procedure.

The Marketing Manager will exercise his control mainly through conferences. Thus he will meet the heads of the various departments singly at stated intervals throughout the week, and at those times discuss their progress. In this way he will exercise general supervision over their activities, and can at any time call a conference or committee meeting for discussion of some particular point.

Careful planning of routine work will relieve the committee meetings of much detail. But control can become too automatic. It is advisable to have the department heads get together at frequent intervals and to get them accustomed to the idea of co-operative action. The futility of much committee discussion as it exists today is largely eliminated because each department has its own clearly delineated duties and there can be no excuse for failure to carry out recommendations or orders. The head of each functional department is himself an executive.

**Supervision.**—Most marketing activities are conducted without sufficient supervision. In fact, it is the introduction of closer supervision and a more adequate control which constitutes one of the outstanding features of the present system of scientific marketing. Under the usual plan, most companies, and particularly the larger ones, do not have men enough at the head of the sales organization to carry on their work to the best advantage. The executives in charge are, for the most part, salesmen who have been successful and who have made their way upward through sheer force. These men may be called good, all-around men, and, in fact, must be such if they are to handle the usual type of job.

The system of scientific marketing, however, assumes that it is better to have a group of men who are specialists than it is to have only one man who is an all-around man and who is supposed to be able to handle every problem which comes before him. The group of functionalized executives, each in charge of a special



type of work, will relieve the Marketing Manager of detail and leave him free to take care of the broader aspects of his position.

At present, due to the fact that their superiors are weighted down with more duties than they can properly discharge, the salesmen are left free to do much as they like, little restraint being put upon them as long as they bring back orders. Each salesman is supposed to work out his own salvation, without being interfered with or assisted. It was not long ago that workmen were in a similar situation, as the result of a similar condition. Each workman was a craftsman, and followed those methods which his individual experience had taught him to be the best. There was little executive teaching or control. Modern production methods have changed all this and standards have been introduced whereby all workmen are supposed to follow what has been shown to be the one best way. It may be expected that a similar course of events will take place in the field of marketing.

It is rather generally supposed that there should be as few non-producers as possible in relation to producers—that is, there should be as many salesmen and as few men in charge of them as can be managed. This, however, is not necessarily logical. Greater efficiency can be secured by having men in the Planning Department who can plot out routes and prepare quotas; men in the Training Department who can instruct in the best methods; men in the Research Department who can formulate statistics as to where the market is; and finally, a Sales Manager who can exercise strict and accurate supervision.

**Discipline.**—The administration of discipline is a difficult problem. The higher up in an organization one goes, the more difficult does it become. In marketing, it is especially perplexing, not only because the men, as a rule, are of a comparatively high type, but also because they have not been brought up in a school of discipline, and it is hard for them to become used to it.

Furthermore, the members of the personnel to whom discipline is particularly irksome are likely to be those who, on account of other qualities, are unusually valuable. Behind the attitude of such men towards the disciplinarian always lurks a latent threat that if they are goaded too far they will leave the company and go to some organization where their efforts will be better appreciated.

Under the scientific system of marketing, the Sales Manager



no longer has in his own hands the power of discharge or other disciplinary weapon. It has always been his tendency to excuse any overstepping of rules if the end results were good. These principles, nevertheless, have been formulated with one purpose in mind, that of objectivity of demand, and it is essential that they should not be transgressed.

As far as the sales force is concerned, discharge becomes almost an automatic action. The salesman is trained, is placed in a territory with known potentialities, and required to fulfill a quota which is within the ability of a first-class man. If he does not succeed in meeting his quota requirements after being given a reasonable trial, there are two courses open. Either he can be discharged summarily, or he can be shifted to one of the other departments in the Marketing Division.

While the Sales Manager cannot discharge any member of his department his recommendation, in practice, is ordinarily sufficient to remove the individual in question. It proves fatal to harmony to have the Sales Manager at odds with any of his force, no matter how good a record the man may have. In such a case, the man may sometimes be transferred to another department. Such cases, however, should occur rarely, since one of the Sales Manager's outstanding attributes should be his ability to get on with his men.

The policy of keeping the salesman fully informed as to his progress makes him aware of whether he is doing well or ill. Reproof, criticism, commendation, and praise will be distributed impartially on the basis of accomplishment.

**Remuneration.**—Any plan of management which can be dignified by the word "scientific" must make suitable provision for the remuneration of employees. The system of scientific marketing outlined in this book assumes as axiomatic that a high rate of remuneration to the marketing force is not inconsistent with a low marketing cost per unit of goods sold.

By "high remuneration" is meant high compared with that prevailing for work of the general nature in hand. Men who had previously engaged in miscellaneous sales work may now be better paid as a result of engaging in a more specialized marketing duty. The lowering of marketing costs automatically results from relieving the higher paid man of details, these being delegated to less experienced men, who receive a lower rate.

The delegation of details to the less experienced men is not always easy at first. It usually appears that the higher-priced man is wasting valuable time in explaining to his assistants the method of handling trivial matters. There is in reality, however, a gain here, because a process of education is going on whereby the more experienced man is broadening himself through the process of teaching, while the inexperienced man is gaining useful knowledge. The whole plan makes for a progressive group in which the younger members are being trained to take the place of their superiors, the latter thus being released for still higher duties.

With respect to personnel generally, the following policies are fundamental:

1. Each member of the Marketing Division should be given the highest grade of work for which he is fitted.
2. Each member should be expected to turn out the maximum amount of work which can be expected of a high-grade man in his job.
3. Each member should be paid an increased amount of remuneration, proportionate to the results which he obtains as compared with those of an average man.

**Methods of Remuneration.**—In general, any method of remuneration will necessarily be dependent upon the marketing objectives and policies of the company. If mere sales volume is the sole marketing objective, then the more usual forms of remuneration will be adequate; but if other policies are adopted, it will be necessary to devise a different incentive plan.

Fig. 20 gives a tabulation of the ordinary methods of compensation, together with the advantages and disadvantages of the straight salary and commission forms of payment. Under a straight salary plan, where a uniform rate is paid, the tendency is for the better men to slow down gradually to the standards of the poorer and less efficient men. On the other hand, straight commission plans put a premium simply upon quantity sales, and this, as has been shown, is undesirable.

As in the case of other marketing endeavors, there has been steady, although empirical, progress in devising methods of remuneration which will at the same time provide the greatest incentive to the salesman, and give the company the largest degree of control. It is not only the amount of the remuneration that counts, but also the way in which it is awarded. For



## METHODS OF COMPENSATION

### I.—BY SALARY

#### *Advantages of This Method:*

- a. Secures adherence to sales principles of the house.
- b. Allows for proper degree of development of missionary work.
- c. Easy to compute.
- d. Has authority of long usage.
- e. Leaves the house free to transfer salesmen to other territories.

#### *Disadvantages of Method:*

- a. It is claimed that salesmen grow dissatisfied unless salaries are frequently raised.
- b. Does not bring forth the best that is in salesmen.

### II.—BY COMMISSION

#### *Advantages:*

- a. Compensation measured directly by results.
- b. Risk and responsibility placed upon salesmen.
- c. Salesmen stimulated to harder work.

#### *Disadvantages:*

- a. Relation of salesmen to house apt to be distant.
- b. Encourages overselling to the neglect of service and missionary work—calling on prospects.
- c. Too much earned by salesmen in periods of prosperity; too little in times of depression.
- d. Difficult to determine proper rate of commission.

#### *Variations in Method:*

- a. Straight commission—a fixed percentage paid on all sales.
- b. Sliding commission—commission percentages increased as definite sales totals are reached.
- c. Group commission—merchandise is divided into groups, each carrying a different rate of commission.
- d. Commission and drawing account—either guaranteed or applied against earnings.
- e. Salary and commission on sales over quota.

### III.—THE BONUS AND OTHER ADDITIONAL REWARDS

### IV.—ANALYSIS OF THE TASK—THE POINT SYSTEM

FIGURE 20. TABULATION OF METHODS OF COMPENSATION

Both the straight salary and the commission methods of remuneration are open to grave objections. While the specific problems of individual companies will exercise much influence, the trend is and should be toward a form of remuneration which will be based upon accomplishment, giving rewards for extra effort and penalties for slovenly performance.

—Policyholders' Service Bureau, Metropolitan Life Insurance Company, New York.



example, a straight salary and the amount earned under a point system may be identical, yet the satisfaction to the salesman in the latter case should be far greater, while at the same time he is spurred to put forth his best efforts.

According to the Policyholders' Service Bureau of the Metropolitan Life Insurance Company, which made a careful survey of the methods of compensating salesmen in manufacturing and wholesale establishments, there are five elements in a good system of compensation:

1. A subsistence salary.
2. A commission for sales above a set quota, such commission to be graded by the net profits to be realized.
3. Bonuses for unusually good performance—the bonus for reductions in selling expenses being of timely importance.
4. Penalties for slovenly performances.
5. A money equivalent for all services the salesman renders.

It is not to be expected that the task and bonus system, or the point system, will at once supersede all other forms. The difficulties in the way of preparing a system are sometimes hard to overcome. In a scientific system of marketing, however, it is essential, as stated previously, that the worker should be paid in accordance with his accomplishment.

Fig. 21 shows how a point system might operate under working conditions. It is important, however, that the system be made as simple as possible, both to simplify accounting tasks and to prevent annoying the salesman with too many petty details.

**Promotion.**—One difficulty with which the management will be faced is that of losing some of its best men to competitors and to others who offer high inducements in order to recruit men trained in methods of scientific marketing. There is such a dearth of these men that salaries are often offered out of all proportion to a candidate's intrinsic value.

Probably the best way to deal with this situation is to permit men to move on to better positions and even to assist them in their advancement, if as a result they are likely to be benefited. A basic feature of scientific marketing is that of furthering the interests of the employees. This policy, although it may frequently interfere with operations, has, in the end, a beneficial effect. For every man who is lost to outside concerns there will be other applicants for his job, who, realizing the oppor-

1. For mere presence on the job, a nominal salary at a uniform rate for every man, young or old, new or seasoned.
  2. Bonuses for current performance say,
  3. For each day actually out on territory.
  4. For each card report of call promptly mailed.
  5. For each order personally taken—any size—any line.
  6. For new customer order personally taken—any size—any line.
  7. Bonus for annual sales in territory assigned, direct and indirect, as related to established quotas by lines, which rate might vary for different lines if margin of profit or sales resistance was radically different.
  8. On each line as soon as some mark, say 60 per cent or 80 per cent of quota therein is reached.
  9. When 100 per cent of quota on any line.
  10. When 100 per cent of quotas on all lines.
  11. Following one aspect of merit systems, used in railroad operation, set up a conditional credit of perhaps 200 points as a basis for recognizing carefulness, loyalty and industry. Charge demerits by points against this, for example:
    12. Violation of instructions.
    13. Wrong routings.
    14. Bad contracts.
    15. Incorrect instructions on order.
    16. Bonus for each point remaining at end of year.
    17. A system of merit marks can be gradually developed to care for services of a voluntary nature, in the main, which can not readily be given positive valuation like the routine, required work of the field men. These serve as an offset against demerits which reduce the original grant of 200 points. Typical examples of such services are:
      18. Report of tested successful method of securing interested attention.
      19. Successful method of meeting specific objections from buyers.
      20. Successful method of closing some type of order.
      21. Method of reducing or eliminating some sort of expense.
      22. Constructive suggestion for changing package to please more dealers.
      23. New type of prospective buyers found for some line and definitely reported.
      24. New use for product reported.
      25. Forestalling loss of money because of change in credit standing of debtor.
      26. Any unique display of initiative for the benefit of the house.
1. \$30 per week (or \$20).
  3. \$1 per day.
  4. Say 10 cents each.
  5. Say 50 cents each.
  6. Say \$1 each.
  8. One per cent.
  9.  $1\frac{1}{4}$  per cent.
  10.  $1\frac{1}{2}$  per cent.
  12. 1 to 10 points.
  13. 1 to 3 points.
  14. 5 to 50 points.
  15. 2 to 20 points.
  16. \$1 each.
  - 18 to 20. 3 to 10 points.
  21. 10 to 50 points.
  - 22 to 26. 5 points and up.

FIGURE 21. ACTIVITIES FOR WHICH CREDIT MAY BE GIVEN UNDER POINT SYSTEM

A careful analysis must be made in each case to determine what activities shall be given point values and the number of merits or demerits to be assigned to each. These points must be set to secure a reasonable uniformity of remuneration among the individuals in the group.

(Sales Management)



tunities for advancement, will bend their efforts to give the best service of which they are capable.

The Marketing Division should be run on a basis of promoting men as rapidly as possible. Hence it must be expected that the best men in it will eventually leave in order to fill higher jobs.

In recognition of the potency of promotion as an incentive for greater effort, the promotional possibilities of every job should be outlined or charted. By establishing a definite path of promotion, as from the Research Department, through the Planning Department, to the Sales Department, each employee knows what steps he must go through before he is ready to assume executive responsibility.

Another basic factor in promotion is that it should be based entirely upon merit. The policy of promoting men according to the length of time they have served is essentially wasteful. It is especially vicious in that it discourages the younger and more ambitious members of the organization, who feel that there is no future for them under such conditions and seek employment elsewhere. Promotion, therefore, in the scientific system of marketing, is based upon records of accomplishment.

**Holding to the Organization Plan.**—It is common for executives to say that they do not believe in organization charts or any formal methods of organizing, on the grounds that an organization is determined by the capacities or incapacities of those who compose it. This is admitting that a policy prevails of giving to each man that duty which he is capable of performing and of providing elsewhere for any function which he is incapable of carrying out. In other words, the organization merely conforms to the idiosyncrasies of the personnel.

Although in practice it is necessary to make any plan of organization to some extent elastic, for the reason just stated, yet it is absurd not to have a general plan of organization which is held up as the desired one. Any other procedure would be like doing away with blueprints and drawings on the principle that when the materials came into the shop they might not prove to be what was specified.

The manager who contends that he must shape his organization to fit his personnel thereby admits his weakness as an executive. It is like saying: "Strictly speaking, there is such-and-such a job to be done; but I cannot find the right man to do



it." Or, "Smith is the man who is supposed to do this job, but he is doing something that he is not supposed to do, and I cannot control him."

The principle which should be adhered to is that of insisting on a clearly defined form of organization, having this set up before all concerned and making the personnel conform to it, with, of course, a reasonable degree of latitude. The day is gone when the man is greater than the system. With present-day large-scale operations, it is essential that organization be put before personality.

While it is not uncommon to obtain good results from scientific marketing after the preliminary steps of installation have been taken, and at a fairly early moment to reach a basis of efficiency which is satisfactory, there is always danger that the new organization will not keep up to this level and that it will slip back again into the old ways. It requires unusual executive ability to maintain a constant high level of accomplishment. Once the organization has become established, the greatest problem is that of finding and keeping a man capable of doing this.

There are, of course, numerous expedients for preventing a relapse to lower standards. One of the most effective of these is that whereby the employee suffers loss of pay commensurate with reduction in his accomplishment. Accordingly, it is all the more advisable to introduce some connection between accomplishment and remuneration as soon as feasible and while everyone is enthusiastic.

In addition to those touched upon in this chapter, there are ways and means of control which may be counted upon to maintain performance at a consistently high pitch. Accounting is one of these. This, and others, will be discussed in the next section of the book.

## PART V

### DEPARTMENTIZATION OF MARKETING ACTIVITIES

CHAPTER X.	MARKET RESEARCH
CHAPTER XI.	MARKETING PLANNING
CHAPTER XII.	MARKETING TRAINING
CHAPTER XIII.	SELLING
CHAPTER XIV.	ADVERTISING
CHAPTER XV.	SERVICE
CHAPTER XVI.	CREDITS
CHAPTER XVII.	MARKETING ACCOUNTING
CHAPTER XVIII.	DEPARTMENTIZATION OF THE SECONDARY MARKETING FUNCTIONS

*This section of the book describes the details of a system, and their specific applications, from both a theoretical and an actual viewpoint. How scientific principles should be applied, and how they are being applied, are described. Since a basic assumption of this book is the idea of functionalization, the chapters have been made to conform to certain important functions into which marketing activities can be divided.*





## CHAPTER X

### MARKET RESEARCH

THE purpose of market research is to give a picture of the entire marketing situation. Its function ends with the supplying of data in tangible and usable form. It does nothing with these data, because this latter function belongs to the Planning Department. The two departments are not combined, for the same reason that production and inspection are not combined in the factory. One serves as a check upon the other.

Market research may be divided into three sub-functions: first, the gathering of data; second, their organization; and third, their preservation in available form for use by the planning and other departments. (See Fig. 22).

The gathering of data covers a broad field. It starts with the facts relating to the product itself, specializes on market information concerning consumer, customer, and credits, includes distribution figures, and makes a statistical study of sales and sales efforts.

The organizing of data takes in the several processes of analysis and comparison, interpretation, and verification. It will also include forecasts of a statistical and routine nature, such as customers' requirements for the coming year. The statistical summaries are then handed on to the Planning Department.

The preservation and dispersal of data results from the fundamental character of the Research Department as the supply house of all information and facts concerning the market. It will naturally, therefore, keep the market records, files of the reports and analyses made, and will have in its charge the library. The library is, in fact, the heart of the Department.

Market analysis is no longer a fad. Although perhaps less widely discussed than formerly, it has become recognized as valuable by that contingent which may be known as the "select few." These companies have regularly organized market analy-

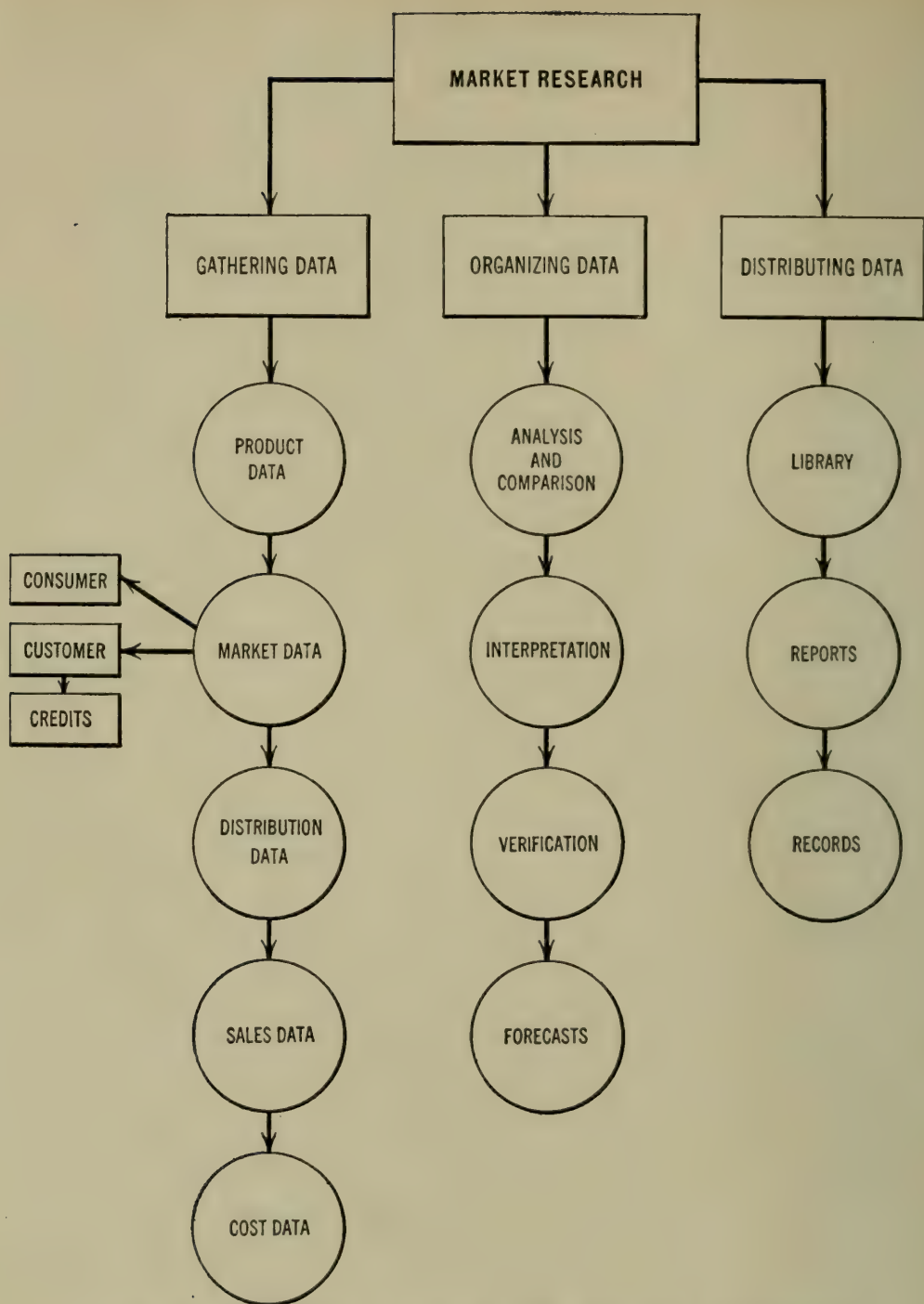


FIGURE 22. FUNCTIONS OF THE MARKET RESEARCH DEPARTMENT

This is not an organization chart, but is intended merely to indicate the more important functions which must be performed by this department. The actual set-up will depend upon the nature of the work to be done, the size of the department, and the qualifications of the available personnel.

sis departments, employing as many as eight or ten men, and in some cases more.

**Present Practice.**—Although market research is a recognized function, there is no standard method of taking care of it by the companies which use it. Nor is there any standard for the duties which this department of marketing should perform. The Elliott-Fisher Company sets up a special "Sales Statistical Division." See Fig. 23. In practice, market research is handled by the Sales or Advertising Department, the advertising agency, the Statistical Department, or perhaps the Sales Development or Promotion Department. This at once betokens some confusion as to the exact nature of the function.

To have market analysis carried on by the Advertising Department or agency is hardly a logical proceeding. Advertising is but a part of the market process, and often an overbalanced part. Such large firms as the Bon Ami Company, however, intrust their market analysis work to their advertising agency. The Goulds Manufacturing Company use their agency for this purpose, assisted by their own advertising and sales promotion manager. The California Fruit Growers' Exchange has market analysis conducted by its Advertising Department in the course of its work.

Sales research and market analysis in the Eastman Kodak Company is carried on by the Statistical Department. Its province is merely advisory, since its reports are submitted to the Sales Department for action. The American Radiator Company divides sales research into statistical sales research, handled by the Sales Research Department, and market or field survey handled by the Sales Promotional and Field Supervision Departments. All of these activities, however, are under the Sales Manager.

Some firms get what market statistics they need from outside sources, such as organizations to which they belong. Other firms, such as the Bassick Manufacturing Company, supplement such information with research activities of the sales organization itself.

**The Proper Form of Organization.**—The Market Research Department is probably one of the most difficult to organize in the Marketing Division, partly because market research is not widely understood, and partly because the type of man



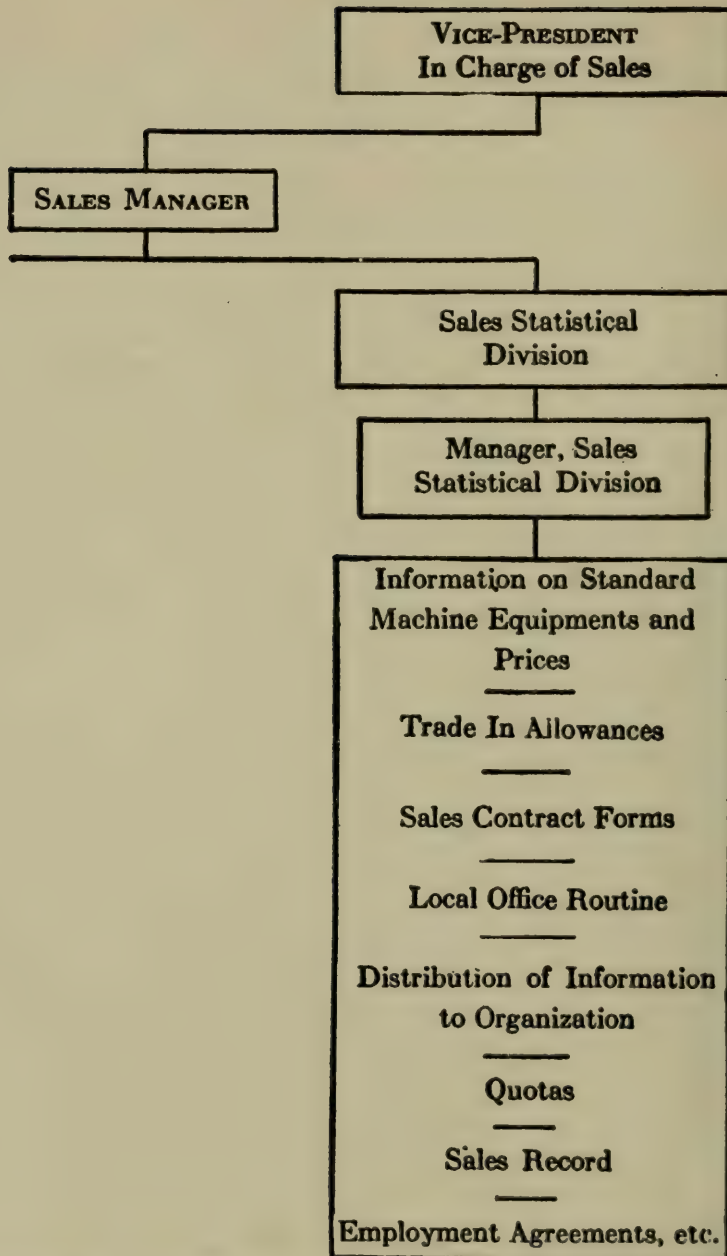


FIGURE 23. SALES RESEARCH IN THE ELLIOTT-FISHER COMPANY

Here, the activities of the research department, or "Sales Statistical Division," is extensive, embracing some functions which under the system of scientific marketing would be assigned to other departments. It is noteworthy that this division is accountable to the Sales Manager, rather than to the Vice-President in Charge of Sales, the individual most nearly analogous to the Marketing Manager.

*(Metropolitan Life Insurance Co.)*

required for it is not readily found. The chief trouble comes during the first year. After that time, the department begins to get a clear conception of its duties, and the rest of the company's organization begins to comprehend what market analysis is.

It is, of course, possible to have market research work done by an outside organization. Advertising agencies frequently engage in market research, and some of them do it well. There are also various consultants who conduct market research. The advantage of engaging outside help is that it ought to be expert, unbiased, prompt, and quickly resultful. But, although it may be well to retain the services of outside counsel, which will advise as to the conduct of market analysis activities properly at the start, it is doubtful whether the actual operation of such a department ought to be intrusted to outsiders, except in emergencies, or for some special investigation, or for the purpose of putting the marketing organization on a scientific basis.

There are, of course, times when an outside marketing counselor can get quicker, or better, or more unbiased results. An organization such as that of R. O. Eastman, Inc., with its trained investigators, can cover the country and bring back results in a very short space of time, and this may be a highly desirable step. Again, the outside counselor is useful in organizing market research and in advising as to its direction. Thirdly, the outside organization will always be of use where new developments must suddenly be undertaken, especially by a small company.

In the ideal plan of scientific marketing, a market analysis should and must constitute an integral part of the Marketing Division, functioning in daily contact with its other departments, never relinquishing its studies, and performing its primary and always continuous function of giving the management an adequate reflection of the status of its market.

Although the term "Market Research Department" sounds formidable, it should in reality require the services of comparatively few men. In the beginning, to be sure, a larger force will be necessary in order to build up the sources of marketing data which serve as the pivot of all market analysis operations.

The setting up of a department of this sort presents certain organization problems. Under the classic system, the sales manager is one of the leading officials of the establishment. In fact, the position of sales manager is, in some respects, of increasing

importance. If this officer's conception of his duty is merely to take charge of sales activities, the problem of how to provide for the other marketing functions becomes difficult.

Faced with a situation of this sort, the president of one company determined, despite the obstructionism of his sales manager, to install a market analysis department, making it accountable directly to himself and in no way responsible to the sales manager.

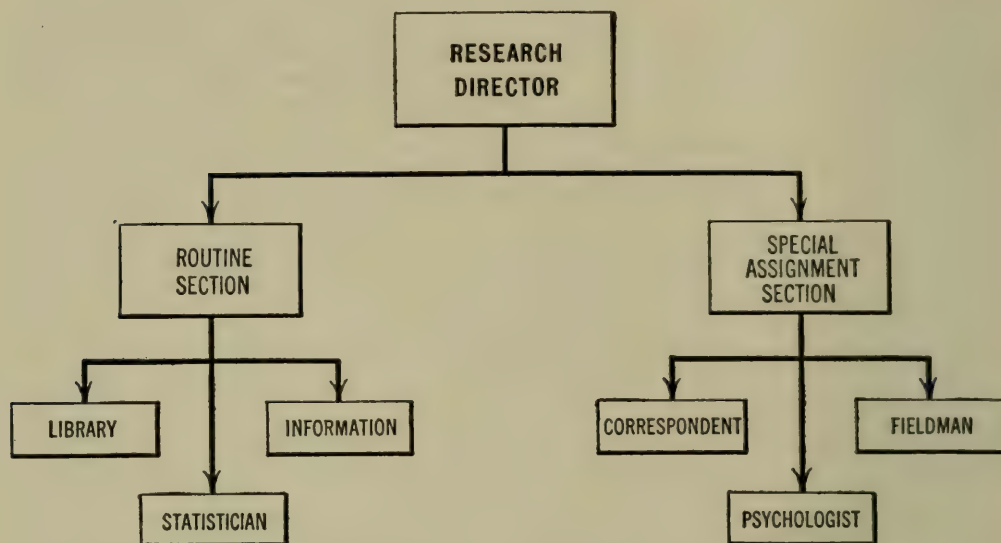


FIGURE 24. ORGANIZATION OF A MARKETING RESEARCH DEPARTMENT

This plan was that of a large company selling a personal service. One important branch of its work was to obtain current data, largely of a statistical character, for clients. The "Routine Section," shown at the left, was for this purpose. Another function was that of making special studies in various fields, mainly with a view to obtaining new business and building up material for campaigns. The "Special Assignment Section" (at the right) makes provision for this.

This is an example of a set-up which was made with the frank purpose of conforming to the personnel available. In the beginning, the heads of the two "sections" reported directly to an officer of the company, the plan being to appoint one or the other of them eventually to the position of Research Director.

This move, however, should be considered one of expediency rather than as a model. Under the ideal plan, the Market Research Department would report to the Marketing Manager. Fig. 24 illustrates the organization plan of the Research Department of a concern which sells services.

**The Director of Research.**—The first step in preparing for market analysis is to obtain as manager the best man available. This man should have a clear conception of what market re-



search means and what place it will and should have in the company's endeavor. He must know how to give the movement the initial impetus which, in many cases in the past, has been almost impossible to obtain.

The man in charge of this department should have the analytical type of mind; yet he must be thoroughly acquainted with marketing practice and with the technique of market research. Finally, he must be a good organization man. It is hard to find anyone capable of fulfilling the last of these requirements, but it is of the highest importance, for the reason that the man in this position will inevitably be considered a taskmaster, and hence likely to be looked upon with small favor, particularly in those organizations where market analysis is not yet thoroughly understood.

The manager of the Market Research Department is perhaps in a stronger position if he is not taken from the company's sales force. It has been found in some cases better to hire an outsider who, although well qualified for his job, has a position of no personal and political significance within the company, and cannot, therefore, be criticized as a graduate of the Sales Department would be. An engineer is a good man to hire for this task, but engineering alone is not sufficient background to enable anyone to handle it satisfactorily. He should have in addition some training in marketing practice, psychology, and statistics.

If the expense is not prohibitive, a man with experience in handling men is desirable for this position, since the Market Research Department can be developed into an excellent school. New men coming into the company after they have mastered the problems surrounding the product and its manufacture may well be tried out in this department, provided they have the necessary training and viewpoint. Sales experience is not necessary for work of this sort, nor is it necessarily desirable, but the ability to meet men and to obtain information from them is essential.

To sum up, the Research Director must be a clear and accurate thinker, be possessed of initiative and enthusiasm, have a working knowledge of research technique, be able to handle his own department in executive fashion, and be able to coordinate his work with that of the other departments.

**The Personnel.**—As can be seen by a glance at the functional chart (Fig. 22), the activities of the Market Research De-

partment are two-sided. On the one hand, it must go into the field and collect the information; on the other it must classify, organize, and prepare it for use. Thus the department will have a field section and a home section, both of which should work in close harmony.

The field section would be made up of the collectors of information, whoever they may be. The large company should have its own force of field men; the smaller company may utilize the junior salesmen as field men; other companies may use the field service as a definite part of the training program for salesmen. While some companies use the salesmen themselves as gatherers of information, this practice should be discouraged, since it interferes with the primary sales activities.

A single correspondent is sometimes given the job of taking care of questionnaires and other paper work connected with the field force.

In the home section, a comparatively small organization is sufficient. In the first place, there must be a librarian, responsible for all the files of the department as well as printed information. To assist her she may require a file clerk. In the second place, there must be a statistician, who should know business principles as well as the statistical method. He should be able to employ graphics, and furthermore should be able to explain his statistical computations in a manner comprehensible to the average business man.

The Director of Research normally writes his own reports on the basis of the material gathered and tabulated by his subordinates.

Where the Market Research Department is used for training purposes, a good plan is to let the younger man travel with the older man for a certain period of time, while doing field work. Although it may be more expensive to operate this way, yet somewhat better results may be obtained and in a shorter period of time, because the young man is able to make field notes and to take care of the numerous data connected with this sort of work.

In the beginning it is usually necessary to obtain information from customers and from the trade by means of personal interviews, but after this has been done for a sufficient length of time a great deal of the same sort of material can be obtained by correspondence. This desirable condition of affairs may, in



fact, be expected to occur as soon as the purpose of the market research activities is understood throughout the field which is being covered.

In setting up a department of this sort, it is of course important to make plain to those from whom information is constantly sought that the activities of the department will redound to the benefit of the industry in general. Often the Market Research Department can, without injury to itself, supply other companies with data of great value, and when this is understood the task of obtaining information is easier, and hence a smaller force will be required.

**Coordination with Other Departments.**—The Market Research Department must work in closest touch with all other departments in the Marketing Division. It will furnish the Sales and Advertising Departments data on which to make up their campaigns. It will supply the Planning Department material for scientific planning. In many cases it will disclose the lines along which special training effort should be exerted.

Coordination will not be secured without some friction in many cases. It is quite common, for example, for a salesman to look upon market analysis activities as a spying system. Especially where branch managers are concerned is tact necessary. While their attitude will be outwardly friendly, they will, as a rule, make it plain that they are not convinced of the value of market analysis. The only remedy is to explain the situation, to show the value of the work to the whole organization and especially to the Sales Department, and to correct any wrong impressions they may have received.

In general, the Sales Department should be kept advised of the activities of the Market Analysis Department in the field. The morale of the salesmen may be impaired if they feel they are becoming supernumeraries. Similarly, branch managers may well receive copies of the reports of the Market Research Department, if these reports are pertinent to their work.

One frequent cause of friction is when the Market Research Department runs across a bad situation in the handling of the market by the Sales Department. This is likely to happen in the earlier stages of scientific marketing management, but it can be eliminated entirely by making the Market Research Department solely responsible for such conditions. Since the Sales Depart-



ment is required only to sell, it should not be made to do any of the research work. This is strictly the function of the Research Department.

The Planning Department will readily come to regard the Market Research Department as its most valuable ally. With the Advertising Department, and particularly with the advertising agency, there may, however, be some friction. This may be reduced if it is made perfectly clear to the latter that the Market Research Department deals with facts alone and that responsibility for action is entirely out of its hands.

**Gathering Data.**—This chapter makes no pretense of developing the technique of market research work. But it is important to have a clear conception of the duties which fall within the scope of this department. Its first function, as previously indicated, is that of gathering data, which are of various kinds, such as those dealing with the product, the market, credits, distribution, sales, costs, and perhaps other information pertinent to the company's problems.

What data to gather is not an easy question to answer. In the first place, there are certain facts which will be collected as a matter of routine, such as sales, buying power of the territory, general statistics of all kinds with a bearing upon forecasting, and the like.

In the second place, there will be special research problems to be met and solved. Some of these will come up in the course of routine work, but in general these problems should be organized in some fashion or other so that the most important ones may be undertaken first. Thus, the Marketing Manager may well suggest to the Director of Research certain pressing problems, or the Director of Research may submit to the Marketing Manager the problems which he considers of the greatest importance.

It goes almost without saying that the department should co-ordinate all outside research data it can obtain. It would be wasteful to undertake a research which had already been done at great length by some other concern, governmental agency, or association. Research, in many ways, is one of the greatest forces making for cooperation in business. While some of the investigations may well be kept secret by the company, the majority of them may be exchanged with other companies doing research along similar lines. The mutual benefit received usually outweighs

any loss sustained. It is true, however, that in some companies research is so jealously conducted that one department does not even know what another is doing. This is obviously uneconomic and contrary to scientific practice.

Ordinarily, the routine work of the Market Research Department takes precedence over any special investigation. The latter should be authorized only when there is general agreement as to its necessity. After the special investigation is approved, a plan of procedure should be drawn up by the Director of Research for authorization by a general executive committee. At this time also, he should submit estimates of the additional cost of doing it, the time required for completion, and the approximate program.

**Product Data.**—The majority of marketing programs today are built around the product. Even under the newer system, where the consumer takes the place of first importance, the product remains and must always remain a major factor. The difference is that steps are taken to make the product fit the market, rather than to force an unsatisfactory product on a reluctant market. This tendency to adapt the product to the market has been growing of late years with great rapidity.

Product analysis is naturally of the greatest importance when a Market Research Department is first installed. This department will then have to deal with such problems as simplification and standardization. A compromise will have to be struck between the desire of the Sales Department for greater variety and the demand of the Production Department for standardized and simplified products.

Adding new features to an established product as an additional sales attraction is an old merchandising idea. The Market Research Department should collect the facts in regard to any proposed change before it is put into effect. In connection with the Production and Sales departments it may conduct a sales test of the new product and then follow up purchasers to judge whether or not they are satisfied.

One function of the Market Research Department is to see whether the product is used properly, improper usage being a frequent cause for dissatisfaction. Another duty is to see that the package fulfills all the requirements of the market. A third duty is to see that the unit of sale is in accordance with market demand.



The Market Research Department merely makes reports on these various features and submits them to the Marketing Manager. If he approves them, he passes them on to the proper department for action.

**Market Data.**—The collection of market data has already progressed to a considerable extent in many companies. These data may be divided into several types:

1. *Data for purposes of classifying markets and consumers.* Thus, consumers may be classified according to age, sex, race, religion, or other factor bearing upon their market status. Customers may be classified according to the volume of business done, the type of business, competing lines carried, or other basis of division. Markets themselves may be separated according to density of population, purchasing power, urban or rural nature, standard of living, or perhaps geographical location.

2. *Data for purposes of measurement.* Market analysis for many companies consists of a quantitative or qualitative measurement of potential markets. In some cases this will mean a direct count of possible buyers; in the majority of cases where a number of consumers are concerned, it will be necessary to use some indirect method such as the so-called "market index." The company may make up an index of purchasing power based on its own investigations. It may, on the other hand, be able to use some of the indices prepared by various publications for use by their advertisers, but in such cases certain corrections may have to be made to suit the company's own problems.

3. *Data of market preferences.* The Market Research Department is the eyes of the business. It must see whether a competitor's policy is better liked by the company's customers. It must find out whether there is any dissatisfaction with the company and what reasons there may be for this.

**Sales Analysis.**—The analysis of sales is one of the statistical problems of the Market Research Department. The movement has not as yet gained proper headway because sales managers do not ordinarily know how to organize a job of this kind, and until this function is taken away from the Sales Department, it cannot be carried out to the best advantage.

Sales figures lend themselves to analysis to a remarkable degree. Every sale made may form a subject for special study. First, the study of one sale is made; then sales are studied by



Customer .....		No. ....						
Address .....		District .....						
Grade		Industry						
Month		1925	1926	1927	1928	1929	1930	1931
January								
February								
March								
1st Quarter								
April								
May								
June								
2nd Quarter								
July								
August								
September								
3rd Quarter								
October								
November								
December								
4th Quarter								
TOTAL								

Grade								
January								
February								
March								
1st Quarter								
April								
May								
June								
2nd Quarter								
July								
August								
September								
3rd Quarter								
October								
November								
December								
4th Quarter								
TOTAL								

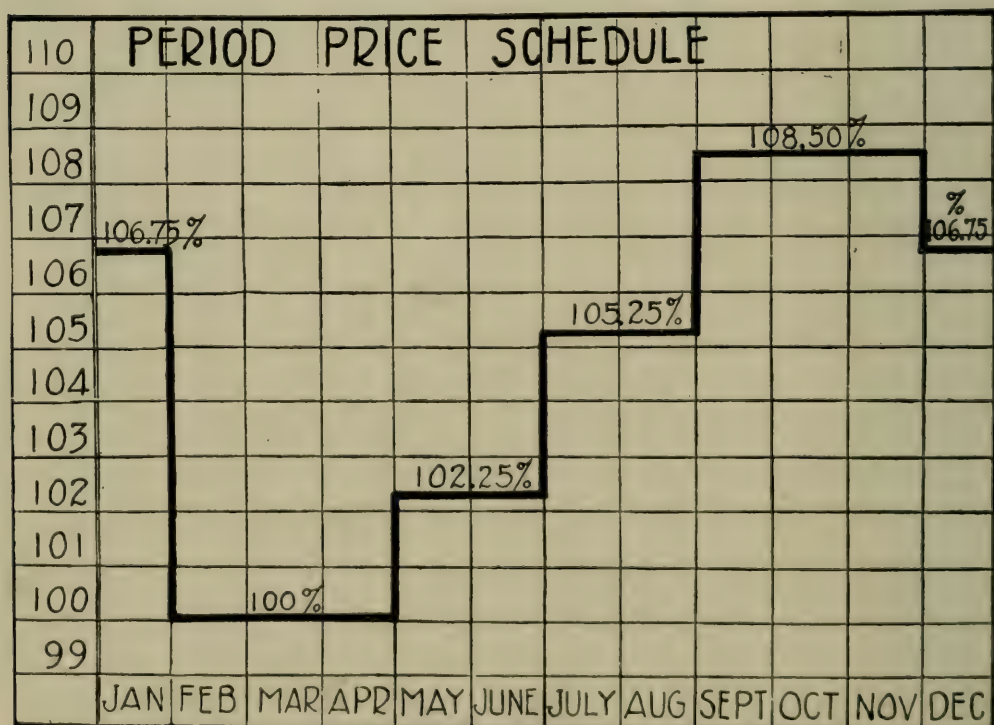
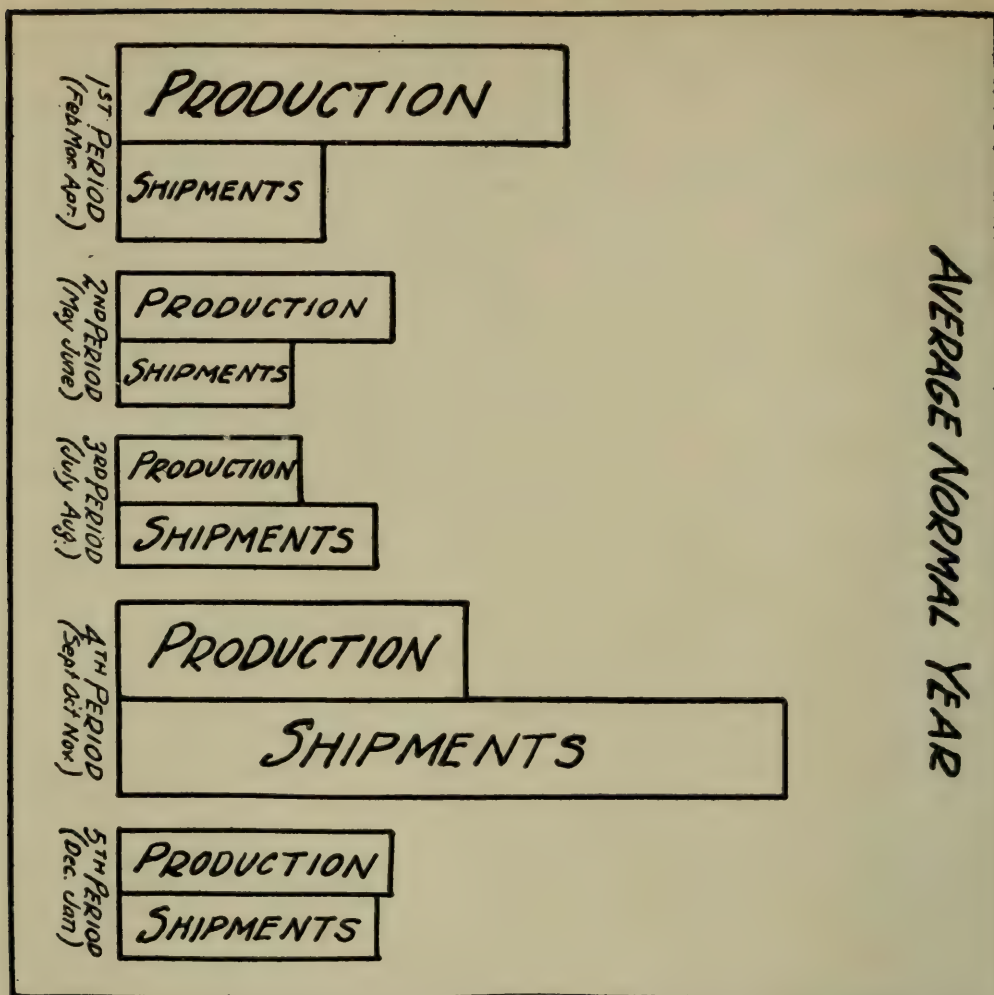
  

Grade								
January								
February								
March								
1st Quarter								
April								
May								
June								
2nd Quarter								
July								
August								
September								
3rd Quarter								
October								
November								
December								
4th Quarter								
TOTAL								

Form 2001 2-1926-5000

FIGURE 25. FORM USED IN SALES ANALYSIS

This form, used by the American Rolling Mill Company, is used for keeping a record of shipments to individual customers, and provides space for seven years' comparative record by months. "With close to a hundred different grades, each of varying profitableness," says P. H. Pumphrey, Development Department, Sales Division, "our analytical and follow-up problems are rather similar to those of diverse lines of industry, such as drug jobbers. We must analyze to sell the profitable members of the line, and at the same time we must see that we are selling a customer all of the grades which he can use advantageously. We make out a separate sheet for each grade used by the customer, keeping these together in loose-leaf books arranged alphabetically by our sales districts."



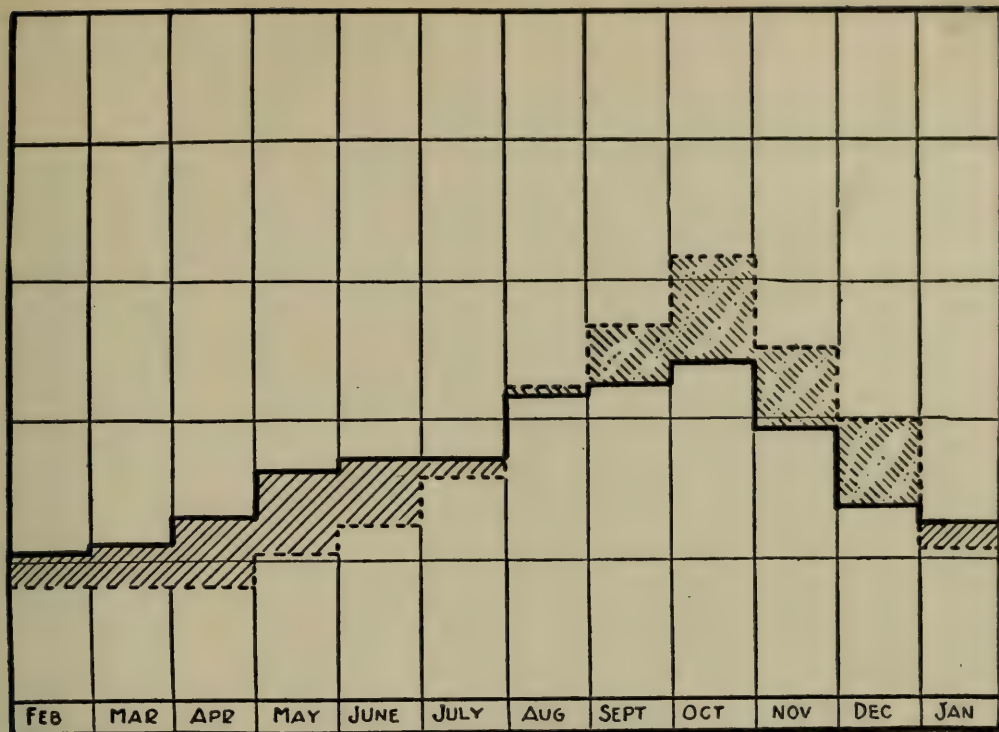


FIGURE 26. BETTER COORDINATION OF PRODUCTION AND SALES BY SALES ANALYSIS

Chart A illustrates the normal seasonal variation of production and sales in the radiator industry, dividing the year into five periods. During four of these periods there is a marked differentiation between volume of shipments and production.

In Chart B the remedy adopted to meet this situation is shown. A price scale was arranged by the American Radiator Company, based on the period of the year when shipments were at low ebb, and rising until the peak was reached in the fall, when demand was greatest.

Chart C shows the results of this adjustment of seasonal variation. Demand has been materially stimulated during the dull sales period, with a corresponding falling off of shipments during the former active fall period.

(Taken from pamphlet of American Management Association, Sales Executives Series No. 6, by R. B. Flershem, General Sales Manager of the American Radiator Company.)

groups. Various groupings are likely to prove beneficial, such as by territories, volume, class, or cost. Each group division leads to a generalization which will add to the sum total of useful knowledge.

The analysis of sales is particularly important because all sales are different, even though all the products sold may be identical. It is desirable to know, for instance, the common characteristics of all those who buy a certain breakfast cereal—



as well as their points of difference. Such knowledge helps in planning future sales. Sales records, properly analyzed and compared, should bring out the significant points. Fig. 25 shows an interesting example of sales analysis.

One highly important result of analyzing sales is the allotting of sales quotas, whether by territories, by lines of business, or in some other way. The sales analysis should also indicate where to sell and how to sell. In sales analysis Marketing Manager and Comptroller meet on common ground.

There are a number of outstanding examples of what sales analysis has been able to accomplish for specific companies. The series of charts shown in Fig. 26 illustrate the results of a sales analysis made by the American Radiator Company. By studying production and sales figures, together with prices, it was found that the company's seasonal grouping of demand in the fall caused at that time higher manufacturing costs to the company and poorer service to the public. It was not feasible to manufacture ahead for demand because of the multiplicity of sizes and styles and the fact that orders were not placed until the last moment by jobbers and contractors who did not carry radiators in stock.

The company adopted as a remedy the so-called "seasonal price policy" by which the price is automatically raised as the peak season approaches. The last figure in the chart shows how this policy has caused demand to be spread out over a wider space of time.

An example of a case where sales research did not lead to good results because of original failure to take all factors into consideration is that of the National Aniline & Chemical Company, manufacturers of textile dyes, which tried to determine annual consumption of various colors by textile mills. It wanted to find out whether it was getting its share of the business on certain tonnage colors, and whether this would show where market emphasis should be placed. The trouble was, however, that changes in style caused color preferences to shift also, so that the results of the survey were useless when procured because conditions had already changed and demand for colors had changed likewise. The company then resorted to a plan whereby branch managers should report color sales in their territory each month, which at

once made it possible to fix sales quotas on the basis of current knowledge.

A department intended primarily to gather data for sales quotas is charted in Fig. 27.

**Distribution Studies.**—At a time when the major drive for reducing costs is being directed against the various middle-

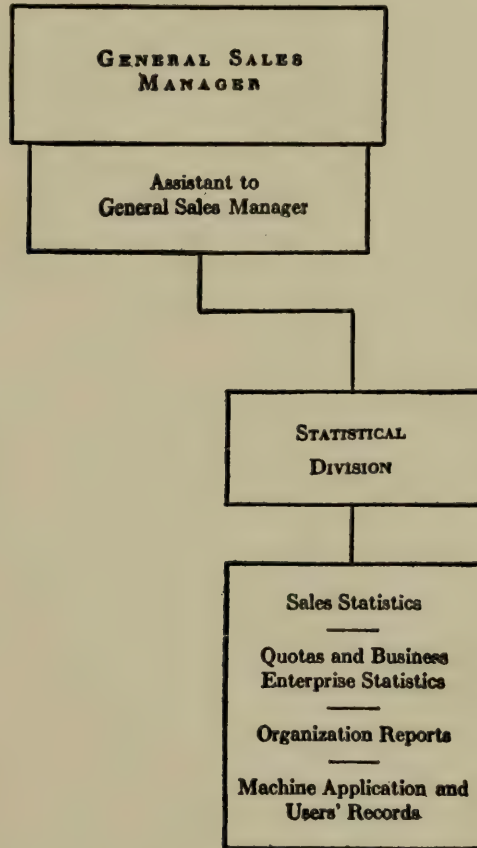


FIGURE 27. MARKET RESEARCH OF BURROUGHS ADDING MACHINE COMPANY

In this company, a great deal of effort has been made to place marketing activities on a scientific basis. Its quota system is one of the oldest. Statistics are largely used here for quota purposes, as is evident from the chart.

*(Metropolitan Life Insurance Company)*

men, it is important for the Market Research Department to make studies of costs of distribution through various channels. In many companies the distributive system has grown up hit or miss. In some parts of the country a concern follows one procedure, and elsewhere it has a different system. Another company will sell through jobbers and also direct to retailers, and

there will be constant strife between the company and its distributors as to discounts and treatment in regard to service.

It is particularly important to study distribution in connection with the market. The question should be answered as to whether the present system is getting the largest coverage. If distribution is through jobbers, is that jobber covering the territory thoroughly? Are dealers getting the share of business to which the market potentiality of their district entitles them?

On the basis of such facts it will be possible for the Planning Department to formulate remedies, but the important thing is to gather the information. Obviously, it will not be possible to gather it all at once.

In analyzing the work of distributors, the greatest tact will be called for, especially as few of them have any appreciation of the value of market analysis. It will be necessary to show to them that the work done will accrue to their benefit as well as to that of the company.

**Credit Information.**—There has been a growing recognition of the fact that sales and credits are closely interlocked, that one activity cannot be conducted without the other. The difficulty, however, has been in finding credit machinery which will operate successfully in the Marketing Division. Salesmen are admittedly unsuited for obtaining credit information. Their whole aim is towards making the sale and not judging whether or not it is proper to make it. Furthermore, the Sales Department itself is seldom competent to judge of the credit policy. In the vigorous market competition which now prevails, there is a constant pressure to liberalize credits in order to increase sales.

There seems to be, however, no good reason why the gathering of credit information should not be intrusted to the Market Research Department. Credit is a market function rather than a financial one. While salesmen do not make good credit men, market analysts should make the best of credit men. The shifting of credit duties from the Financial Department to the Market Analysis Department should make for a more rational and effective centralization of efforts.

It is possible, of course, that the Credit Manager should be allowed to have his own department as a separate entity and merely to make use of the market research field force as a means for obtaining information. This will allow him to get much



more accurate judgments than can be secured from records and from credit agencies.

Some companies attempt to train their branch managers to take care of credit ratings. It might, of course, be a good idea to assign one credit man to each branch or even to a number of branches, depending on the particular problems of the company in question.

There is some opinion that collections should be a sales and marketing function also, on the theory that a poorly worded collection letter will not only lose a sale, but will lose the customer as well. While there is a great deal of truth in this statement, it still remains better policy in most cases to have the Collection Department a part of the financial system, although there may well be some advisory interchange of opinions as to individual delinquent accounts. In such a case the Market Research Department, which has originally done the investigation, may have to supply supplemental data as to the facts of the individual case.

**Organizing Data.**—The task of the Market Research Department is not completed when it has collected the data. It must still analyze, interpret, and in some cases verify this information. This is a technical process, as a rule, and it is here that the expert research specialist is required. It is desirable to have a balanced staff of men at the home office to avoid any marked leaning towards statistical or towards the psychological treatment of the facts secured.

The Market Research Department which merely collects and arranges the data has failed in its purpose. It must make the proper generalizations apparent from these figures and facts. The Planning Department cannot be expected to take the data as they are collected and tabulated and to make use of them. The data must be suitably prepared. This process of interpretation may take the form of discussion and conference in which the various members of the department deliver their deductions, or the Market Research Director himself may write a report on the basis of the facts. The best form would combine both these methods, the Research Director himself always retaining the final decision as to generalizations.

If possible, the generalizations made by the Research Department should be verified. This will avoid guessing as to infer-

ences, and compel the Research Department to prove, in the scientific manner, the conclusions which it arrives at.

**Forecasting.**—One important function of the Market Analysis Department is the forecasting of customers' requirements. This consists of getting them to state approximately what they will need during a certain period in the future, say one year in advance. The customer is not asked to commit himself to the acceptance of goods to the amount of his estimate. He is asked merely to state as accurately as possible what his requirements will probably be.

These figures can be used to advantage as one of the factors in making up the sales quota. It is not to be expected that forecasts of this sort will prove successful to any marked degree in the beginning, for it is only after a period of several years that the knack of making close estimates can be acquired. It will take time, also, to educate customers to give the necessary cooperation. Once organized, however, a forecasting service of this sort can be of great value.

Any forecasts made by the Market Research Department are purely factual and in no wise embody any planning. These findings are merely submitted to the Marketing Manager or to the Planning Department. To show how forecasting is used in this sense, the F. E. Booth Company of San Francisco takes the result of its sales in various markets, subjects them to analysis, and then adds a reasonable expected increase. The pack of various commodities is then estimated, and if market indications do not come up to estimates, then the company centers its efforts through brokers and specialty men on the markets which do not come up to expectations.

**Distributing Data.**—The final function of the Market Research Department is as a depository of information to be distributed upon requisition. This is not an activity to be despised. So many companies have, with a sudden burst of energy, planned and started a library, only to let it drop when the first period of interest was over. To be valuable, a library must be kept up to date. Not only should it contain the general literature pertinent to the company's own interests, but it should also have a copy of all reports made by the company's Research Department, and all reports obtainable from other companies.

Where the company has a library, it will naturally wish to

own books on production, finance, and other phases of business. Marketing literature will form only a part of the collection. If the library is large enough, it may be better to keep the marketing literature in the Research Department, and division may also be necessary when the Production Department is not located in the same building or even city.

The question of what records to keep is sometimes puzzling. It is, for example, not worth while keeping records which will obviously never be of any value again, or which are out of date. A summary of such data would be sufficient. It is exceedingly desirable to give attention to the installation of a good filing system, as these records should be available at a moment's notice. Cross-indexing will often be required.

The Market Research Department should be recognized throughout the company as the source for all market information, regardless of its character. Much of the value of this Department will depend on its ability to furnish such information. Naturally, it will take time to build up such a reference service, but a few years' experience will indicate the type of information which is most frequently called for and will also point out the lines along which expansion should take place.



## CHAPTER XI

### MARKETING PLANNING

PLANNING includes a wide range of activities. There are, for example, major plans which have to do with company policies, normally initiated by executives, and minor plans which have to do with carrying out these major ones. There are long-range and short-range plans, positive and negative plans, company and departmental plans. A plan may be so broad as to constitute a policy, or be so narrow and detailed as to form a schedule. Scientific planning would substitute for the judgment of one person the judgment of a number of individuals especially qualified and equipped for the task.

Marketing planning is now being practiced by many companies, although here, as elsewhere, variations in nomenclature are confusing. Marketing planning, for example, often goes under the name of sales promotion. "It is important, however, to separate planning from execution in marketing, just as has been done in production. As the executive of one of the large companies of the country says: "Our present-day sales managers are so burdened with operative details that they are not able to do a good job of planning."

**Functions of the Planning Department.**—Whereas the duty of the Market Research Department is to obtain data, and to marshal them in logical array, the object of marketing planning is to base active, dynamic plans upon these data. Thus, the duty of planning is of the highest strategic importance. It can be divided broadly, as is shown in Fig. 28, into three main divisions—initiating, developing, and coordinating.

The initiating of plans is at present primarily an executive function, founded in most cases on empirical judgments. The Planning Department takes over much of this function, but, recognizing the value of idea creation, wherever it originates,

makes ample provision for stimuli from without. It will have in its charge the formation of objectives and policies of all kinds, affecting the Marketing Division.

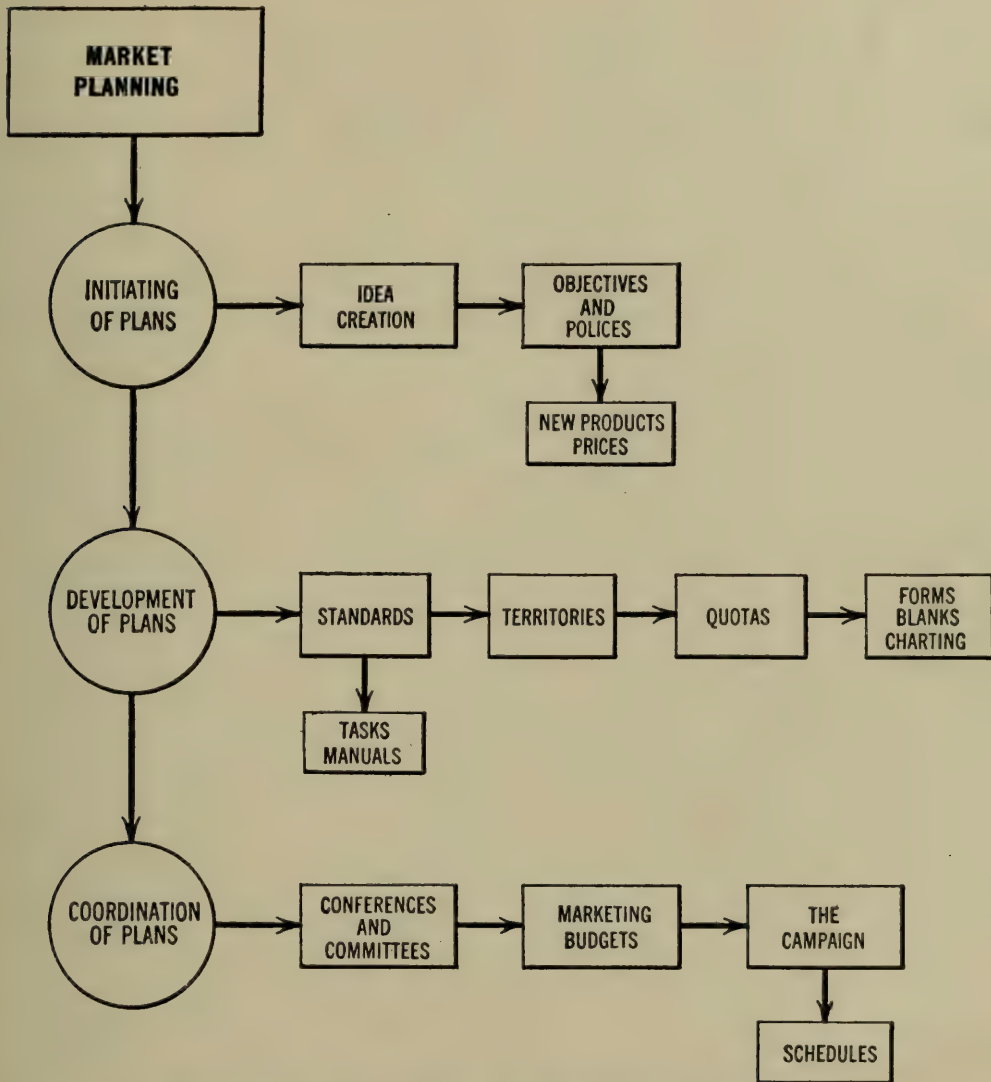


FIGURE 28. FUNCTIONS OF MARKETING PLANNING

Since every marketing activity (and, indeed, every business activity) should be the outgrowth of a well developed plan, it is obvious that the scope of the Marketing Planning Department will be very broad. This functional chart shows some of the more obvious functions, as they would apply to the average manufacturing company. The organization chart of the Marketing Planning Department would normally be considerably simpler than this, in appearance.

The development of these plans involves the setting up of standards, such as territorial quotas, and the making of schedules, also routing and the various forms and blanks to facilitate the

development of all plans. Thus this department will combine the highest executive functions with the routine work of putting the statistics of the Market Research Department into practical application.

One of the most important planning functions is that of co-ordinating the work of all the other departments in the division. The Planning Department is the brain which directs; but it does so only after the information from all sources has been received. To organize the work of planning involves the calling of conferences with particular departments. This department also has relations with various extra-marketing departments, as with the Financial Department, in making up the budget. All its activities lead eventually to the shaping of the marketing campaign.

It is important to emphasize that the Planning Department exercises *control* in no way whatsoever. It either formulates plans itself or puts the plans of others into a practicable form and it submits all plans to the Marketing Manager, who makes decisions as to whether or not they shall be put into effect, or whether they shall be modified. It is essential to a well-balanced organization that the planning function should not include the making of decisions. Otherwise it would become too powerful for its yoke mates. Therefore, a part of the procedure includes the securing of approval for its proposals. Its plans are always merely tentative until they are given the approbation of the Marketing Manager. It acts much as a Senate Committee in our own governmental system which investigates evidence, and then makes recommendations, while any action on these findings must be authorized by the Senate itself.

**The Organization of Marketing Planning.**—In any organization plan, functions must be reduced to terms of personnel. The result often is to make the organization chart look quite different from the functional chart. (Fig. 28 is a functional chart, while Fig. 29 is an organization chart.) The Planning Department, however, will introduce no new functions. The Planning Department will do only those things which had to be done, or which ought, at least, to have been done, under the old system. The only difference is that, under the new arrangement, planning will be carried on in a systematic and regular fashion by men who have specialized in this sort of work, whereas before it was done in a happy-go-lucky manner by men who were not



ORGANIZATION CHART OF PLANNING DEPARTMENT  
R. H. MACY & CO., INC.

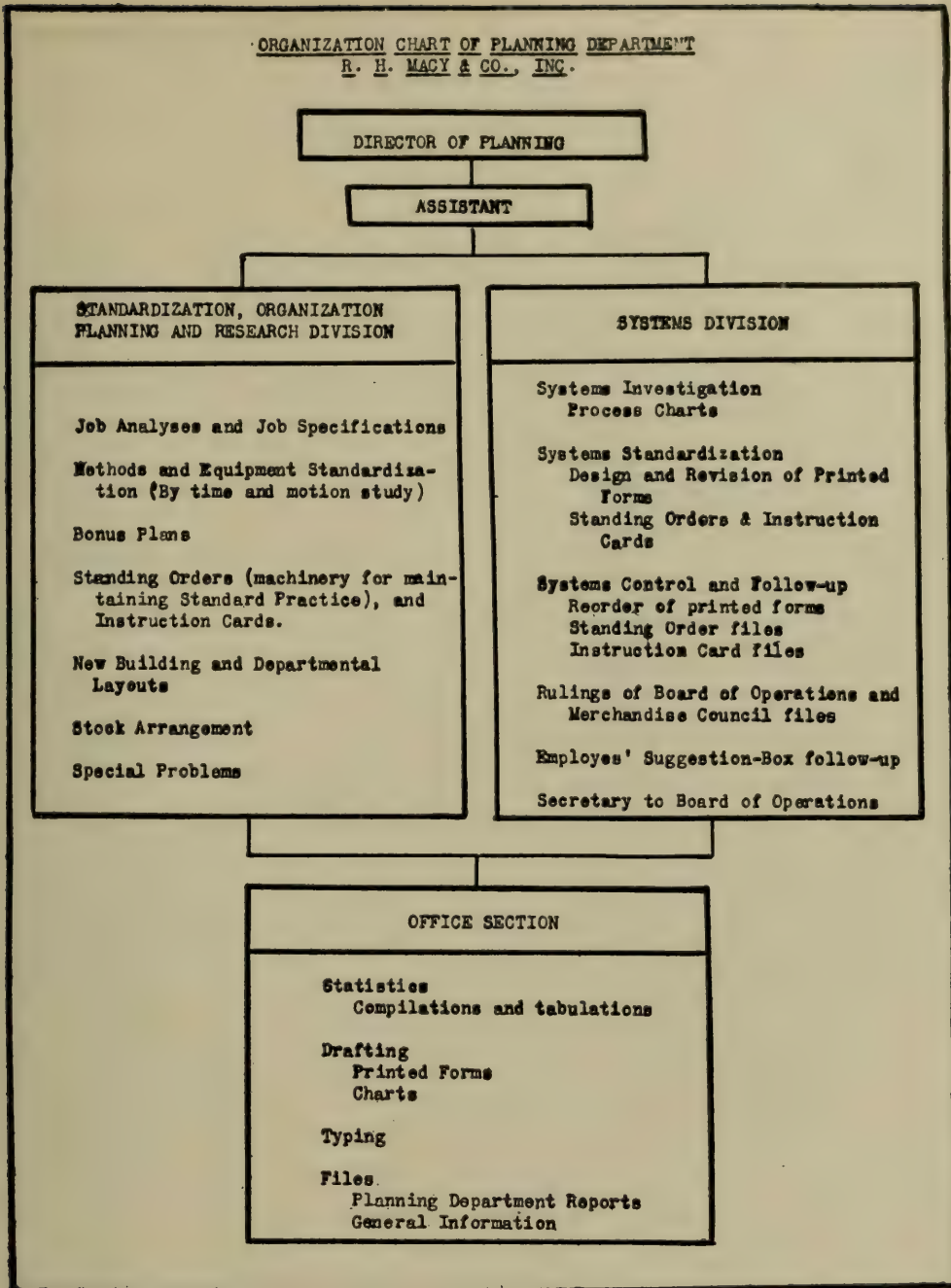


FIGURE 29. PLANNING DEPARTMENT OF A RETAIL STORE

A study of the two coordinating divisions of this department—the Systems Division and the Division of Standardization, Planning, and Research—discloses the multifarious duties for which this department is responsible. This is, of course, purely a staff department, having no line authority.

trained or particularly fitted for planning, and who had to do this work in addition to other multifarious duties.

The Planning Department constitutes what is substantially a mechanism of management; that is, it takes the place of one or more executives who would authorize by purely empirical and personal judgments the steps to be taken. The Planning Department, by a more scientific procedure, does exactly the same thing as the uncoordinated decisions of several executives.

**Planning Department Personnel.**—Marketing planning, like market research, is a staff job, while selling and advertising, which are to follow, are line jobs. The principal object of the Marketing Planning Department is to draw the line to which the Sales Department must hew. Accordingly, the man in charge of this department must be thoroughly familiar with the company's sales problems; in fact, this position requires more intimate understanding of the company's sales relations than does any other. This executive obtains his data from the Market Research Department, presumably after they have been put into assimilable form, with maturely considered conclusions, and with the more obvious recommendations. Whereas the market research executive has a job which is analytical, the marketing planning executive is required to initiate the real creative work of the entire Marketing Division.

The latter executive, although he need not necessarily have the force and magnetism characteristic of a salesman, must understand selling and salesmanship, and must know what plans will and will not prove practical. It is not unusual to find a man of this description on the sales force in a subordinate executive position.

If the scope of the company's efforts is broad enough, it is desirable to support this officer with a second man who is chosen from the factory, and preferably a man from the Production Planning Department. A great deal of the procedure which is employed in the production planning room may be used in modified form in the sales planning office, and by this expedient an efficient Marketing Planning Department can sometimes be built up.

Other members of this department will have to be rather evenly chosen from those men who are familiar with planning in its technical phases, and from those who are conversant with

the company's sales problems. It is quite possible to recruit good men from the Market Analysis Department for marketing planning, but this, of course, cannot be done until that department has been operating for some time.

As already stated, it is not advisable to make the power of the Planning Manager too great; otherwise he would dominate the entire Division. To prevent this, it is desirable to form a committee, consisting of the head of the Marketing Division and of the managers of the several departments. To this committee the Marketing Planning Manager submits his proposals in their complete form, ready to be put into practice. The committee discusses the pros and cons of the matter in question and accepts, rejects, or changes the plan. Final decision is vested in the Manager of the Marketing Division.

It is important to note that the size of the company may determine the size of the Planning Department, but there are few companies now using a sales force which are so small as not to be able to employ the full-time services of at least one man in this position.

**Idea Creation.**—In many ways the most important function of the Planning Department lies in the creation of ideas. While it is true that ideas alone are not sufficient, the mere application of science will never of itself solve a problem. A business, to be progressive, must create and develop ideas which will make the business go ahead. The advertising agency recognizes this necessity, and employs, therefore, what is known as an idea man, whose function it is to think up new and original plans. He is a creative artist, and the Planning Department might well take him for a model. He is the counterpart of the old-fashioned inventor.

The Planning Department provides suitable expedients for eliminating those ideas which are not serviceable, and for experimenting with any which show promise. This department will be merely the practical embodiment of a system which has, in the case of individuals, worked wonders; for it is evident that the success of the majority of great business men has come from their practical use of ideas. These ideas, furthermore, have not always been their own, but in many cases have merely been developed from the ideas of others. The Planning Department, in its



initial phase, would consciously seek to obtain ideas and to sift them out to find ones worthy of development and test.

Ideas will, of course, come from many sources. In fact, from almost any part of the business it is possible that ideas of value may be secured, from the Marketing Manager down to the office boy. The Market Research Department will normally be the most fruitful source. These should be handed on in rough shape to somebody in the Planning Department, who takes them, develops them, and coordinates them, finally submitting them to the Marketing Manager or to the committee for further consideration.

It is sometimes possible to put into operation a suggestion system much like that used in production departments. To stimulate the submittal of ideas and suggestions, some prize should be offered for those which are acceptable. Ideas, of course, will range from a major company policy to some trifling detail of operation. In any case, the Planning Department constitutes a clearing house for them.

**Objectives and Policies.**—Once an idea has been created, developed, and approved, certain objectives and policies are set up regarding it. For example, a certain idea is proposed. This idea is submitted to the Planning Department, which develops it, looks at it from all sides, requests statistics from the Market Research Department in regard to it, and finally decides that it is feasible. The objective is formulated, and put in workable form. The Planning Department lays out the new scheme, and submits proposals to the Marketing Manager as to how it should be carried out, with a certain recommended sequence of procedure. The Marketing Manager may approve the plan as it is, or, if its expediency seems doubtful, it may be referred back to the Research Department or elsewhere for checking before its final adoption.

In formulating policies, there are certain points to bear in mind:

1. The policy should be adopted only after the most thorough investigation, preferably accompanied by a test under actual working conditions. The Planning Department is not a revolutionary tribunal which arbitrarily establishes new practices, after doing away with old ones. It proceeds only on the basis of a careful survey of the facts.

2. The policy should be put into effect gradually. Precipitate

change almost always involves disruption in the organization, and produces bad effects.

3. The policy should be thoroughly explained to the organization as a whole. No policy can be effectively maintained unless it has the hearty support of the entire organization. The fault to be found with many marketing policies at present is that they represent the arbitrary opinion of one man or of a small group of men.

4. The policy should be in keeping with the other policies of the company. An idea, no matter how good it is in itself, must be of such a nature that, when developed or incorporated into a policy, it will strengthen and unify the whole rather than weaken it.

5. The policy should coincide with business conditions outside the company. A new price policy, for example, should not be put into effect unless conditions in business at large, as forecast, warrant it.

**General and Specific Policies.**—Policies may be divided into general and specific, according to whether they formulate a principle or lay down a rule.

General policies should include the application to the specific marketing department of the principles set forth in Chapter VII. These take on almost the nature of axioms. Thus the statement that the system of scientific marketing revolves around the consumer will result in building up certain policies as to treatment of customers. The large department store, for example, may take for one of its general policies that "the customer is always right."

Each general policy can usually be broken down into a number of narrower policies. The importance of each of these will vary with the individual company, but in general the following topics are widely applicable:

The question of price must be treated as a policy. What shall the price be? Shall the same price be charged for small as for large quantity purchases? What discounts shall be given, and to whom? What shall the terms of payment be? Shall the company sell on the installment plan? The question of price will call for the most careful research by the Research Department as to market reactions. It may involve a study of competitors' prices, of standards of living, of production costs, and



many other factors. For the hit-or-miss systems of pricing now in vogue, a scientific basis will be substituted which will function through the Planning Department.

Product policies are always in the foreground. These will include all the problems as to packaging, unit size, methods of shipment, and the best plans for making the product better suited to the market, all the solutions, of course, being based upon reports submitted by the Research Department. There will be the case of new products, which the company may desire to hold up until business depression sets in, as does the Dennison Company, and then to use these new developments to stimulate business. There are the seasonal question and the problem of side lines. There are the question of introducing the new model when the old one gets out of date and many others which must be formulated into policies.

The channels of distribution offer another fertile field for policy making. What, for example, should be the attitude towards jobbers who merchandise their own brands in competition with those of the company? How much assistance should be given to the retailer, and how should this be given?

There are a number of policies which may have to be established in conference with outside counsel. The question of maintenance of resale prices, for example, can usually best be formulated into a policy after consultation with a legal expert, so that the company may not come into conflict with the Federal Trade Commission.

**The Development of Plans.**—The Planning Department has merely started its work when it has selected ideas and policies suitable for application to the company's marketing organization. It must take these inchoate ideas and develop them further. It must discard unsuitable elements and add those which have not been provided. It must, above all, formulate what may be called the "working plan," under which all details of operation are figured out. It is here that the Planning Department gains its greatest efficiency in saving time and effort and preventing waste.

Planned production has long been carried on by means of setting up tasks and standards of accomplishment, based on time and motion studies. While methods of equal precision cannot be introduced into the Marketing Division, where the personal element is so much more in evidence, it is at least possible to carry



the making of quotas, the formation of routes, and the preparation of forms to far greater length than at present. This will result in cutting down unproductive time and thereby reduce selling costs.

Under the conventional system, the sales manager or one of his immediate assistants does the planning of territories and routes. Often, there is no scientific basis for decisions. A territory is given to a star salesman based on what that particular salesman wants. New salesmen are sent out into poor territories merely because none of the older men are willing to give up or change their own sections. Routing is often left to the salesman himself, who naturally takes the easiest way, "skimming the cream" rather than working systematically.

Under a system of Scientific Marketing, all details are worked out not only for the sales force, but for the Sales Manager as well. He is no longer forced to spend in routine work time which should be given to the management of his men.

This development is analogous to engineering in the Manufacturing Division. The latter takes ideas from science and invention and turns them to practical account. Development in marketing consists in applying engineering principles to marketing practice.

**Standards.**—Standards serve both as goals of accomplishment and as methods of measurement. Each unit in the organization should be furnished with a goal of accomplishment. The degree to which this goal is reached should then be measured. The Planning Department sets these goals and formulates a basis for measurement which will be neither so low as to make accomplishment too easy nor so high as to discourage effort.

It is important for the Planning Department to inspect the performance of the plans which it has laid down. When it sets a quota or other standard, it must ascertain later whether this was possible of attainment. In this way, and only in this way, can the Planning Department perfect its own practice, and constantly improve its technique so as to obtain more and more accurate results.

A standard ordinarily represents the best method of performing a certain operation under existing conditions. That is, it takes into consideration both theory and practice. A standard should never be set up arbitrarily. It should always be set as

the result of careful investigation and analysis. In production, performance standards are set up as the result of time and motion studies and on the basis of what the average operator should accomplish. By taking a large number of observations, it is almost always possible to improve the method which has been developed by the workman through habit or imitation.

The same thing applies to marketing. Careful analysis of the work of the salesman, the territory in which he operates, the nature of the product he sells, results in the setting of certain standards, in the shape of territorial allotments and selling quotas, and points out the way to accomplish these goals, by means of schedules and in other ways.

A standard, like any other type of plan, should be neither so rigid as to prevent modification nor so flexible as to necessitate constant revision. A standard implies stability. It should not be set until investigation has made fairly certain that it will not have to be changed at once. On the other hand, conditions are constantly fluctuating, particularly in markets. But it is usually possible to set certain basic standards and to revise details as often as the Research Department indicates that this is necessary. It is also essential to make allowance for variations. Thus a standard practice manual in selling work must always be cast in more general terms than one for production, where conditions can be estimated with much greater accuracy.

**Standard Practice.**—When a standard has been evolved as the result of careful investigation and analysis, it should be reduced to writing. In no other way can uniformity and agreement be procured. As long as the standard remains merely a nebulous unwritten law, its observance and its utility are circumscribed by individual interpretation. There are three major benefits to be expected from written standard-practice instructions:

1. The activities of the Marketing Division, in so far as possible, will be reduced to a routine basis. In this way, all strictly routine duties will be taken from the executives, leaving them more time for work of greater importance.

2. Every member of the Marketing Division will know definitely, without asking questions, what course of action to pursue in carrying out the routine laid down in the standard-practice instructions.

3. The semi-automatic character of the organization built by



conformance to standard-practice instructions is desirable because it saves work and requires less supervision. Furthermore, it tends to counteract the harmful effect of changes in personnel or resulting from temporary absences. The importance of the individual in selling work is reduced to a minimum, the chief thing becoming the job which this individual holds.

Standard-practice manuals may well be written on loose-leaf pages. As soon as there seems to be need for divergence from the practice laid down it is easy to make changes without disturbing the remainder of the work. It is advisable, in making changes, to have the approbation of the head of the Planning Department, and of the heads of the departments concerned by the change.

**Salesmen's Territories.**—The sales executive<sup>1</sup> of a well-known company not long ago made this illuminating statement: "I accuse American sales executives of ignorance of some of the most important principles of laying out salesmen's territories. For, with the rarest of exceptions, the evidence is positive that salesmen's territories are laid out on the basis of state boundaries—a division which is both illogical and tremendously wasteful. I must accuse American sales executives of failure to conceive of the best methods of making the most of their investment in salesmen's compensation and expenses."

He goes on to point out the reasons for this condition. In the first place, the line of least resistance is to assign certain salesmen to certain states. In the second place, the great increase in methods of transportation makes it necessary for sales executives, under present conditions, to burden themselves with a great deal of extra information as to transportation if they are to make any pretense of scientific routing. The result is that the overburdened sales executives throw up their hands and allow the salesmen to do their own routing. Finally, the best sales talent is employed to sell rigidly within a certain territorial boundary, including both large and small accounts. Some firms have junior salesmen to help the more efficient senior force, but even here there is no approximation to scientific procedure.

The system of territorial representation in vogue today is an example of what happens when changes in organization are not made to correspond with changes in market conditions. The

<sup>1</sup>J. J. Witherspoon, *Printers' Ink Monthly*.



sales executive of the large company is still burdened with the work of a routine nature which should logically be handled by the Planning Department. One of the most immediate and valuable results of the functional system of marketing management is the elimination of waste in territorial allotments. The purely territorial method gives way to a system based on careful analysis of the market, the methods of transportation, and the salesman's ability. Thus a salesman of high caliber is not forced to call upon minor accounts, this being done by members of the selling force who had not yet proved themselves.

There are many questions of policy to be solved in connection with territories. There is the thorn of contention which arises when distributors or agents in neighboring territories make sales in one another's sphere of influence. A Ford agent, for example, can make a sale anywhere he pleases provided he makes enough sales to fill his quota. A Buick agent, on the other hand, must keep within his own territory, and if a purchaser of a car moves into another territory before the expiration of a certain length of time, he loses his commission to the dealer in the new territory.

Companies have tried to solve this question in different ways. The Westinghouse Electric and Manufacturing Company, for example, allows its jobbers to make sales anywhere they please, but the company's merchandising service is furnished to the jobber only in his own territory. Other companies allow jobbers to fight the question out among themselves.

The Planning Department, in all such cases as this, must sift the evidence, and set up that practice which appears to be best from the standpoint of the consumer.

**Routing.**—Routing has always been considered one of the sales manager's duties, but, once having assigned the analysis of markets to the Research Department, it is logical to provide for routing in the Planning Department. Correct and scientifically laid-out routing is of the highest importance in reducing marketing wastes. While this constitutes only one opportunity for reducing waste, it is so great that it should be one of the first matters to be attended to in any scheme of reorganizing market activities. The Dennison Manufacturing Company, to determine the amount of time spent by its salesmen in traveling, made an analysis in which it was found that 40 per cent of actual working time was spent in traveling, from 15 to 20 per cent in waiting,

25 per cent in clerical and miscellaneous work, and only 15 per cent in the actual selling operation—that is, the work for which the salesman was hired. In the Dictaphone Corporation it was found that two hours out of the working day were devoted to selling.

There will, of course, be great differences in the routing systems worked out by various companies. The seller of a convenience product sold in all outlets will naturally have to make a much more elaborate routing system than the seller of a technical product used only by a few firms. Similarly, the service problem of a baking company, for example, would entail certain limitations on the routing system employed.

**Quotas.**—Quotas, in general, are of two kinds; the first applies to market territories or classifications; the second applies to the individual salesmen's accomplishment. Quotas are capable of numerous gradations. There is the quota for the entire company's sales, there are quotas for each district or territory, for each city, each county, each town, even each company or customer.

Quotas, furthermore, do not necessarily imply a numerical sales volume alone. Quotas may include such factors as the number of calls to be made per day, number of window displays installed, and the like. Here again, as in the case of all standards, quotas are set as the result of analysis by the Market Research Department and subsequent development by the Planning Department.

Some companies follow out a plan of increasing the sales quota each year arbitrarily; other concerns try to get the sales force to set its own quota at the sales convention or at some other meeting; still other firms base quotas on some arbitrary and artificial index of market possibilities. Obviously, the correct quota can be formulated only by combining the actual territorial possibilities with a forecast of business conditions for some definite future period during which the quota is to operate.

As summarized in Walter S. Hayward's *Sales Administration*, there are at least five factors to be considered in formulating a scientific sales quota—(1) the population or users of the product, (2) the records of sales during preceding years, (3) the strength of competition in the territory, and (4) the estimate of sales for the coming year as correlated with the (5) forecast of business conditions.



**Measurement Control.**—Standards of all kinds must not only be set, but a system must also be installed which will measure the degree to which the standard is attained. The tools for control consist of forms, blanks, and charts of various kinds. It is very simple to overdo this and become involved in a mass of red tape. It is almost as important to eliminate forms that are not particularly useful as to install forms that are.

All instructions sent out by the Planning Department should be in writing, for the same reasons that standard-practice instructions should be in writing. The instruction blank, if possible, should be made up so that the salesman, or any other functionary concerned, may fill it in with as little trouble as possible. Salesmen have an aversion to making out reports, hence the easier their task is made, the better the chances are of getting their cooperation. If possible, the salesman's report should be connected in some way with the remuneration which he is to receive as the result of completing his task successfully.

**Coordination of Plans.**—The Planning Department is the place to coordinate all plans, and to shape them so that they work in harmony, both with those of the company in general and with those of the various Marketing Departments.

Coordination, although it may be regarded as both a line and a staff function, is here purely a staff activity. The basic principle is that all plans should pass through a given channel—that is, the Planning Department—because only in this way can coordination be secured. It should be a fundamental rule that no plan should be put into effect without first going through this channel.

One of the principal features of the coordination with other departments of the company is the control of production in accordance with market possibilities. That is, the production program will be based upon the estimated market demand. According to a prominent engineering authority<sup>1</sup> the analysis of probable sales should show:

a. The total demand for the product during a given period of time. This period should be as long as possible, and preferably not less than six months.

<sup>1</sup> George D. Babcock, in an address entitled "Production Control," presented at the Annual Meeting of the American Society of Mechanical Engineers, December 1-4, 1924.



b. Whether or not this demand will be at a uniform rate. If not uniform, it should show

c. The variation in demand from month to month, or even for shorter periods, if possible.

Fig. 30 shows a graphic coordination of a marketing and production program.

**Conferences and Committees.**—One method of insuring coordination of effort is to provide suitable conferences and committees. This not only serves to unify procedure, but it also keeps everybody informed of what everybody else is doing. The Planning Department is not supposed to preside over such discussions, but it should prepare the material for them. As at present organized, many of these so-called conferences are wastes of time, leading mainly to confusion and misunderstanding. Matters often come up which are obviously out of place; others are discussed on which there are no adequate data to serve as a basis for any decision.

The Planning Department will prepare any material which is submitted to it as the subject of a coming conference. If it has not available data, it will requisition them from the Research Department. In minor conferences, the department head most interested should lead the discussion on the basis of the outlined procedure submitted by the Planning Department. Theoretically, these meetings might be conducted without the presence of the Marketing Manager, but in practice he is usually present. All he has to do as a rule is to give his formal approval to the decision made.

The matter of permanent committees has already been discussed in Chapter IX. Suffice it to say here that the Planning Department should always be represented on these committees, and sometimes in a presiding capacity. The chief fault to be found with committees in general is that there is no mechanism for carrying through the decisions made there. Each member expects some other member to do whatever is necessary. It is the function of the representative of the Planning Department, therefore, to see that the material presented is worthy of discussion, and that the decisions which are made are referred to the proper agency for carrying them out, and finally that a report should be made to the Department as to what steps have been taken.

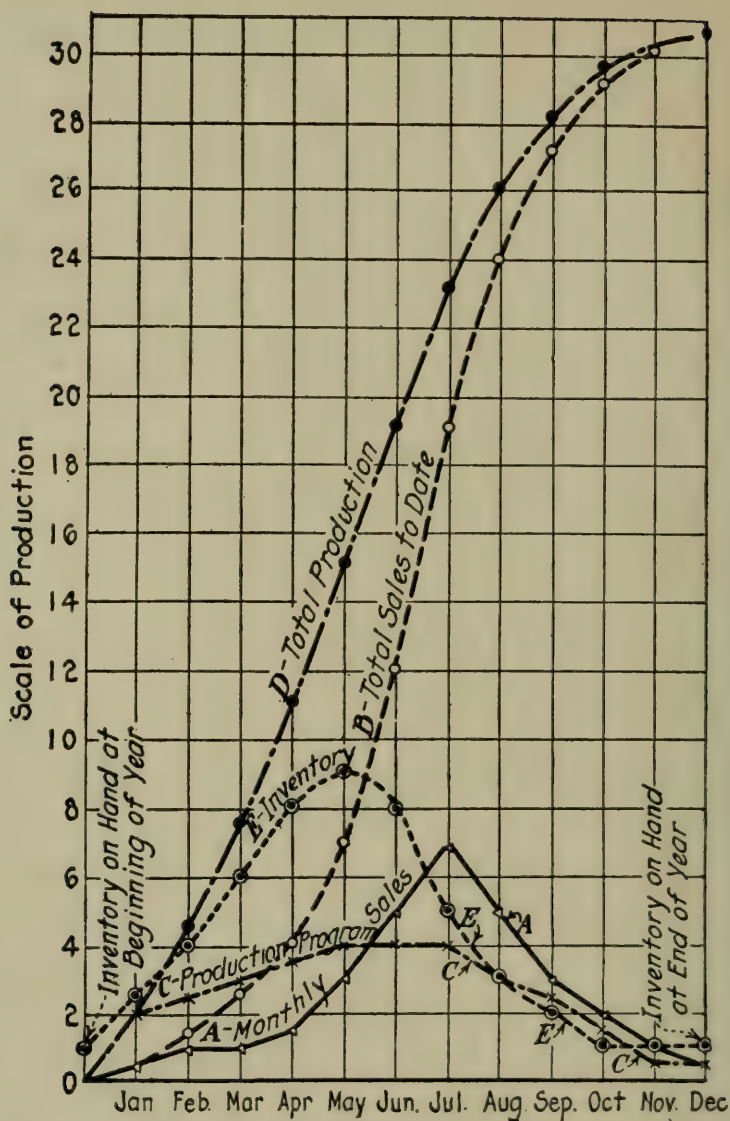


FIGURE 30. GRAPHIC COORDINATION OF MARKETING AND PRODUCTION PROGRAM

In this particular case the monthly production program does not always coincide with the monthly sales figures because it has proved economical to manufacture a minimum size of lot. This minimum may be larger than the expected sales at the beginning and end of the program. Furthermore, expected sales at the middle of the program are larger than the manufacturing facilities of the plant. Inventory, therefore, must be built up during slack periods of demand.

"Production Control" by George D. Babcock. Paper presented at Annual meeting of American Society of Mechanical Engineers, 1924.

**The Marketing Budget.**—The budget includes not only an estimate of sales for the future, but also of the costs of selling and of the profit to be secured. It will include also the advertising budget. The whole marketing budget will be submitted to the budget committee of the company, which will then co-ordinate it with purchasing, production, and administration.

The marketing budget should not be merely an annual affair. While there may be a long-range budget for at least a year, and possibly longer, there should be monthly corrections of this to take care of current fluctuations. The procedure would normally be as follows:

1. Each department of the Marketing Division makes up an estimate of operations. In the case of research, planning, training, and perhaps service, these are of expenditures only. In the case of sales, and, what is equally important, of advertising also, there would be, in addition to expenses, an estimate of results to be obtained. The Sales Department's figures would, of course, form the basis of the main marketing budget.

2. Next, the Marketing Accounting Department proceeds with the making up of the budget; but this is done under the direction of the Marketing Planning Department. In other words, the creative aspect of the budget is the province of the Planning Department, the Marketing Accounting Department being called in merely because it has the technical equipment for doing this type of work. It is charged with taking care of all the details. It brings to bear on the problem its expert knowledge of accounting and of budgetary procedure. Nice coordination is called for here, a matter which is discussed in the chapter on Accounting.

3. The budget is submitted to the Marketing Manager for final approval before being sent to the company executives or to the central budget committee.

4. Each month's reports of expenditures and sales must be compared with the budget. This is done by the Marketing Accounting Department. Steps are taken to see that control is effective. These are taken by the Marketing Manager.

**The Campaign.**—The work of the Marketing Planning Department culminates in the formation of the marketing campaign, which embodies all the ideas and plans in coordinated form. The campaign is a term here used to cover the company's marketing activities in the field, particularly of selling and advertising. This matter will be discussed in detail in later chapters.



## CHAPTER XII

### MARKETING TRAINING

SINCE the days when the president of the National Cash Register Company earned his title of schoolmaster to a class of salesmen, the conception of training in selling has grown and broadened. It has now developed until it tends to include not only the process of salesmanship itself, but also the most scientific methods of selecting salesmen, of job analysis by test, and of a concerted attempt to maintain morale in the most effective manner.

As a rule, it takes longer to train a good salesman than it does to train a good manual workman. This is, however, a good investment, because the salesman is, after all, the key man in modern business. More and more general managers and other ranking executives are being recruited from the sales force. Thus, any efforts which are expended towards training salesmen are bound eventually to yield beneficial results.

The term training, as used here, includes, broadly, the actual employment of those best fitted for marketing work, their training both preliminary to and after they are on the job, and finally, in collaboration with the sales and planning activities, it assists in maintaining the morale of the entire marketing organization at top pitch. (See Fig. 31.) Ordinarily also, it would keep individual records to be used as bases for remuneration or promotion.

**The Elimination of Waste.**—Organized personnel work has been applied mainly to production. Yet the wastes which exist in marketing due to poor selection and training of employees are still great. In organizing the function of marketing training, therefore, certain clearly defined aims should be borne in mind:

1. Everybody in the organization must be familiarized thoroughly with his duties. The application of the principle of the division of labor to marketing will naturally eliminate much overlapping of duties and thus make it possible for each man to become

more familiar with his own job. In the case of the salesmen, it will be necessary to unlearn many practices which are commonly taught. The goal of the salesman is not to sell the most goods possible at a given moment, but to set up the satisfied consumer as the objective. The salesman must know, for example, how big an order a dealer ought to give and the nature of his requirements.

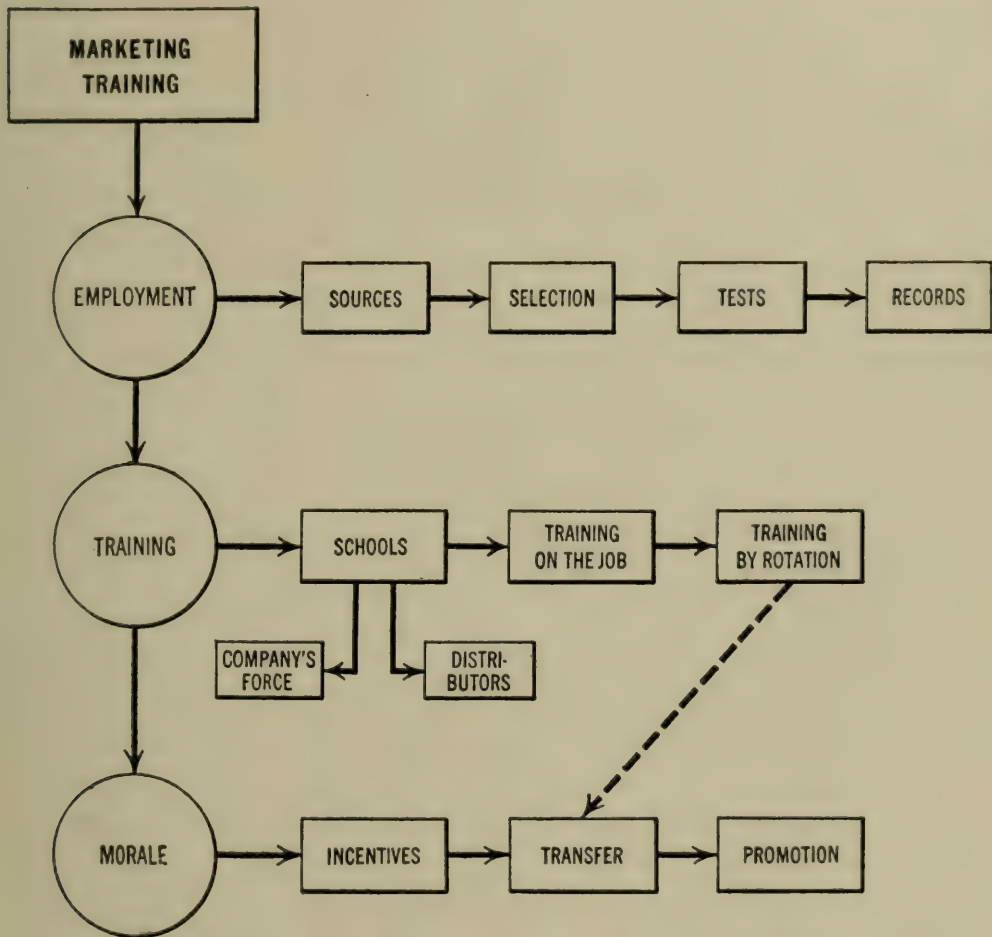


FIGURE 31. FUNCTIONS OF MARKETING TRAINING

The word *training*, as used in this book, has a wider application than in ordinary parlance. Marketing training has to do with all the personnel aspects of the Company's marketing problems. As such, training is perhaps the most important of all the functions of Scientific Marketing.

2. The actual selling process must be reduced, so far as possible, to set standards. Salesmanship, as a science, must be taught with a view to serving the consumer. The old idea that a salesman receives his power in some mysterious fashion must give way to the new theory that selling can be taught.

3. The cost of training must be reduced. This will be done partly by careful selection, and partly by the employment of experts in teaching, who will be able to train men most efficiently in the shortest given space of time.

4. Labor turnover must be reduced. Hence the policy of careful advance selection must be supplemented by a policy of maintaining morale and of supplying the proper incentives to best effort.

**Organization of Marketing Training.**—The exact organization of the marketing training function must of necessity vary with the company in question. There are, however, certain practices which may be given a fairly wide application.

In the first place, large companies frequently have central personnel departments. If such a department exists, it will already have provided in a general, although elementary, manner for many subjects which the so-called Marketing Training Department would cover. There is little, in fact, which a Marketing Training Department does which any good personnel department does not attempt to do, except that the former carries its activities to a somewhat higher degree of specialization.

The first matter to inquire into, if the company has a central personnel department, is as to the duties of this department. It may, for example, cover simply the question of employment, in which case the Marketing Training Department would hardly conflict with it. H. G. Kenagy, Director of Training of the Department of Personnel of Armour & Company, is of the opinion that the "greatest success in developing personnel has been achieved where a central personnel department has conducted the necessary research upon which to develop educational methods." He holds that the actual training should be done by the Marketing Training Department, but claims justly that there are some advantages in a centralized training department which coordinates training efforts throughout the company.

At Armour & Company, training of personnel is handled by three separate divisions in the Personnel Department, one each for plant, office, and sales, with a special director of training to advise with them, particularly as regards the preparation of training material and the organization of training plans. The major part of training, however, will be done by the line or-



ganization. The Personnel Department merely prepares, plans, and supervises the training methods.

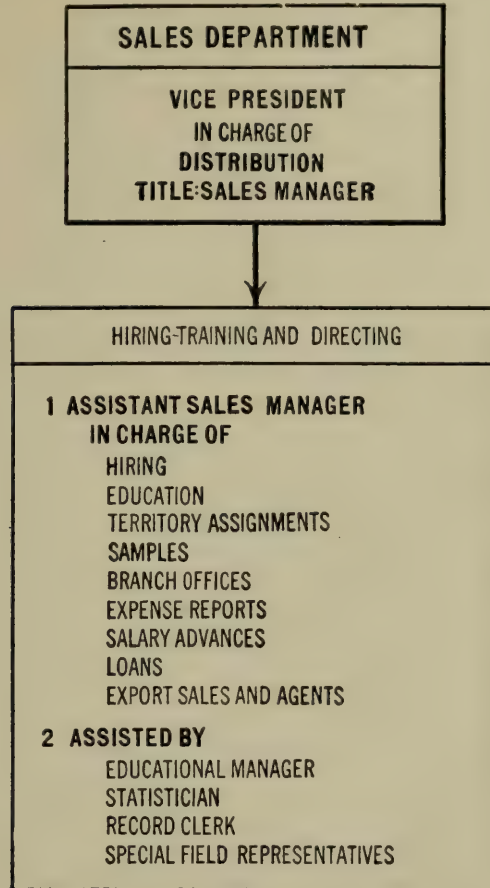


FIGURE 32. EXAMPLE OF A MARKETING TRAINING DEPARTMENT

The Baker-Vawter Company, manufacturers of loose-leaf and filing equipment, Benton Harbor, Michigan, has a special department for hiring, training, and directing its sales force. This department is in charge of the Assistant Sales Manager. The salesmen are hired through the educational manager of the company, then put through the company school at Benton Harbor. The department also assigns them to territories, either directly or through district managers, prepares their contracts, analyzes their sales efforts, gives additional training outside of the class work after they are assigned to territories, watches their progress, keeps records to show their accomplishments, and takes care of the administrative detail of the sales department.

In any event, marketing training should represent a separate activity of the central Personnel Department. The Marketing Training Department will bear the same relation to the Marketing Division that the central Personnel Department bears to the company. The former is, for the most part, a staff department,

with the exception of the training function proper. It exercises no direct authority over the movements of the sales force. The Marketing Manager uses it mainly as a tool in the more efficient direction of the Division. Fig. 32 shows how one company organizes its marketing training activities.

Many well-known companies are primarily sales organizations, in which case the personnel department already has to do almost entirely with marketing activities. This is true of large retail establishments and also of many wholesale establishments.

Here, marketing training is fundamental. Other companies have not a large enough marketing problem to make a separate division of training possible. In many cases, however, the function should be provided for even if only part of one man's time is given over to this purpose. The important thing in scientific marketing is to make formal provision for each function and to recognize it as deserving of conscious and separate attention. Fig. 33 illustrates a model organization set up for a retail concern.

**The Department Head.**—It is extremely important to secure a good man to take charge of the Marketing Training Department. Even though his department may be a small one, the man in charge must be of high caliber and of mature judgment.

Certain companies prefer to place in charge of this department some veteran salesman who has been with the company long enough to know all the men, to have won their respect, and who is fully acquainted with all the problems of the company. The trouble with this plan is that such men often lack the ability to teach. When it is possible to get an employee with the proper requisites, his efforts may be expected to bring results from the start.

Often, in setting up a new organization, it is preferable to have a specially appointed manager for marketing training until the new régime is working smoothly. This man must, of course, be thoroughly conversant with scientific marketing. If desired, a liaison with the Personnel Department can be made later, after the new organization is operating smoothly. The Marketing Training Department need be but a comparatively small affair unless a great many new men are being taken in. Even so, its manager is an official of the greatest importance. He may well be first assistant to the Marketing Manager.

# DEPARTMENT OF TRAINING

*R. H. Macy & Co.*  
547 N. LAMARQUE ST.  
NEW YORK CITY

## SUPERINTENDENT OF TRAINING

### ASSISTANT

#### SELLING DIVISION

**INITIAL TRAINING**  
SYSTEM (SALES CHECKS), STOCK BOOKS,  
MERCHANDISE (MERCHANDISE MANUALS),  
SERVICE & POLICIES (SIX GENERAL LECTURES).  
**FOLLOW-UP TRAINING**  
GENERAL EXAMINATIONS ON  
SYSTEM  
MERCHANDISE  
SERVICE & POLICIES  
FLOOR FOLLOW-UP  
NEW SALESLER  
SPECIAL SALESLER MEETINGS FOR  
SPECIAL SALESLER  
INDIVIDUAL FOLLOW-UP OF SHOPPERS' REPORTS  
CLASSES BASED ON RATING SHEETS  
ADDITIONAL SALES FOLLOW-UP (SUGGESTION  
SALES)  
ADVANCED SALESMANSHIP & TEXTILE COURSES  
CHAIRMANSHIP ADVISORY DEPARTMENT MGRS  
LECTURES  
DEPARTMENT MGRS' LECTURES  
EXAMINATIONS ON DEPARTMENT MGRS  
SECTION MGRS' LECTURES

### ASSISTANT

#### NON-SELLING DIVISION

**INITIAL TRAINING**  
JOB INSTRUCTION STORE SYSTEM  
AND GENERAL STORE INFORMATION  
GIVEN BY DIVISIONAL REPRESENTATIVES  
TO:  
BUR OF MAIL ORDERS & ADJ. EMPLOYEES  
CASHIERS  
DELIVERY DEPT. EMPLOYEES  
MERCHANDISE CHECKERS  
MESSENGERS  
RECEIVING DEPT. EMPLOYEES  
SECTION MGRS  
MEASUREGRAPH INSTRUCTION  
CASH REGISTER INSTRUCTION  
SPECIAL LECTURES TO  
ELEVATOR OPERATORS  
COLLECTORS  
STOCKMEN  
**FOLLOW-UP TRAINING**  
EXAMINATIONS  
SUPERVISION ON JOB

### ASSISTANT

#### SOCIAL SERVICE AND RECREATION

**SOCIAL SERVICE**  
PERSONAL ADJUSTMENTS  
EMERGENCY RELIEF  
HOME VISITS  
REPRESENTATION ON BOARD OF M.M.A.A.  
**RECREATION**  
SUPERVISION OF RECREATION ROOM  
(NOON HOUR PROGRAMS)  
COMMUNITY CLUB  
MEN'S CLUB  
SUMMER CAMPS  
ENTERTAINMENTS  
**MISCELLANEOUS**  
HOUSE ORGAN (SPARKS)  
EMPLOYEES CAFETERIAS  
STORE  
WAREHOUSE  
FACTORY  
LIBRARY  
FICTION  
TECHNICAL  
EMPLOYEES BANKING SERVICE

### PROMOTIONAL TRAINING

TRAINING SQUAD COURSE FOR A SELECTED GROUP IN PREPARATION FOR JUNIOR EXECUTIVE POSITIONS  
EXECUTIVES' TRAINING COURSE  
COLOR AND DESIGN COURSE AT THE METROPOLITAN MUSEUM  
**MISCELLANEOUS**  
SUPERVISION OF RECEPTION COMMITTEE CO-OPERATIVES & CONTINUATION SCHOOL  
SUPERVISION OF MERCHANDISE & INSTRUCTION MANUALS  
COURTESY PRIZES  
ADVICE AND INFORMATION ON NIGHT SCHOOL COURSES  
INTRODUCTION OF NEW EXECUTIVES TO STORE

FIGURE 33.

A Large Market Training Department. This is probably the largest department of its kind in the department-store business, having been operating successfully for more than ten years. Practically every job in the store has been analyzed, and some of them even by methods of time study, as with manufacturing operations. The resultant data are used as the basis for training all new employees.



Hitherto, it has been the Sales Manager who has been charged with the maintenance of morale. Under this system, the Sales Manager would be assisted in this activity of the Marketing Training Department. The Marketing Training Manager must be expert in methods of obtaining good team work. He must know what incentives can be applied for inspirational purposes and he should be able to choose the methods which will prove most effective for the company's particular problems.

**Sources of Marketing Personnel.**—Under ordinary conditions, any firm installing a scientific marketing system will find itself already possessed of a sales force of some sort. It may be large or small, centralized or decentralized, efficient or inefficient, but in every case it is the point of contact with the customer and hence a vital factor. It must be regarded as a tool to be improved upon rather than replaced. Few of the salesmen available can be expected to have an understanding of organization principles, since little sales effort has ever been put on an organization basis. Since such an understanding is essential, the installation of the system may require dispensing with the services of some of the salesmen who are unable to adapt themselves to the new conditions.

In any event, new men must be procured at more or less frequent intervals, and in the reorganization there will be a need for a larger force than under ordinary conditions. Hence the question of sources of personnel is of particular importance.

There are, as a rule, four principal sources of sales material. There is the company itself; there are other organizations, either in the same field or in other fields; there are schools of various kinds, and there is advertising.

The advantage of getting men from the organization is that they are already imbued with the company principles, know the ropes, and are generally more valuable in a shorter length of time than are totally new men. It is sometimes feasible to get a Marketing Planning Manager from the Production Planning Department, or a Marketing Training Manager from the Personnel Department, or a market analyst from the Engineering Department. But this plan has only the most limited application.

Another source, frequently used, is other companies. For example, the F. E. Booth Company of San Francisco tries to recruit its sales help from its various canneries, but has been

successful only in part. Sales personnel, therefore, has been mainly recruited from fields of endeavor closely allied to the company's own activities. The Lamson Company of Syracuse, N. Y., according to H. D. Posey, manager of its Industrial Division, gets its selling and engineering recruits after they have obtained a diversified business experience in many other lines of work. This previous experience is regarded as valuable because these salesmen can bring to the manufacturer, banker, or merchant a broadened vision which, coupled with the training devices employed by the company, makes the Lamson representative a much-valued counselor in matters regarding the handling of papers and packages.

In general, however, getting men from other companies is regarded as an unsatisfactory practice. The man thus secured has been trained in other policies and methods, and thus will as a rule have to be re-trained. This is normally more difficult than the training of a raw recruit. Furthermore, a man who can be weaned away easily from one organization can possibly be weaned away with equal ease from his new employer, thus increasing labor turnover.

The man who is highly trained, regardless of the manner of his training, is becoming more and more of a factor as the attempt to functionalize marketing activities increases. Thus the college and the specialized business school are of increasing importance in the supply of sales material. In fact, the existence of the business school depends on furnishing satisfactory recruits for the executive business functions. Just as the engineering school is designed primarily to fill the needs of production, so the college of business administration largely furnishes embryo market material. Advertising is sometimes a good method of getting men, provided the subsequent processes of selection are properly carried out. Another method is to use the present sales force as a recruiting organization for likely material.

From whatever source procured it is admittedly difficult to obtain good material for the Marketing Division. The best that can be hoped for at present is to secure good raw material and to have the company itself undertake the task of training.

**Selection.**—The scientific selection of personnel for the Marketing Division is an essential part of the work of the Marketing Training Department. Even where a central personnel depart-



ment does the actual hiring, the applicant should be made to satisfy the requirements of the Marketing Division if he is to be employed there.

Selection under a scientific marketing system is somewhat different from that of a company which does not functionalize marketing, because under the latter scheme men are required who can do almost anything which comes up within the whole range of marketing. It is well known, however, that the best sales type is not adapted to perform duties outside of actual selling. For this reason men who are past masters of the art of selling as such often fail in the ordinary company because they have not the patience or the faculty for detail which is such an essential part of their job as now constituted.

Under a functionalized system, it is possible to take a man who does not fit the classic requirements for sales work and utilize him in one of the other marketing departments where a high degree of selling ability is not called for, as for example in the Research or Planning Department. On the other hand, a man of the pure sales type can often be used to excellent advantage in the Sales Department under the functional system, even though he may be quite unqualified for other marketing pursuits.

The more a task is subdivided, the less versatile is the worker required for it. Thus a man might qualify for the Marketing Planning Department even though his deficiency in personal magnetism might disqualify him for selling. In the latter event he might be procured for half what the high-calibred salesman would cost. One reason why the salesman commands his present high price is because he has to be capable of doing so many things. As soon as the task becomes simplified, payrolls can be reduced.

The undertaking must be extensive enough, of course, to permit hiring a considerable number of people. Otherwise the economies due to division of labor are not obtainable.

**Bases of Selection.**—Presumably there are certain qualities which are to be found exclusively in the good salesman; but there is considerable disagreement in regard to just what these qualities are. Thus one executive says the more he knows of successful salesmen, the more he is amazed by their utter lack of conformity to any classification save determination, and the ability to accomplish what they set out to do. Another sales manager



asserts there is no fixed rule for selection of salesmen, because first-class selling ability may be found almost anywhere.

Contrary to these opinions are the views of those who believe it possible to determine what qualities are most important for the salesmen to have and then to learn by interview, information blanks, and tests whether the individual possesses the requisite qualities.

Owing to the relatively high cost of training salesmen, this preliminary sifting process should be carried out efficiently. The technique of tests is as yet in the experimental stage, although it has been demonstrated to the satisfaction of some executives that they are of the highest importance. For example, the personnel manager of one of the largest bond houses in the country has found that the application of tests to prospective salesmen has resulted in refusing positions to many men who would have been hired under the old standards. To determine whether these men actually were unfitted for selling, a number of them were tried out, and in each case the man failed to earn his expenses. Thus in this company no man is hired who fails to pass the psychological tests.

The application blank has also shown great development in the past few years. Not only does it furnish a great deal of valuable information, but it can also be made to serve as the basis for the permanent record which is kept of the salesman as long as he is with the company.

**The Job Analysis.**—It is obvious that the training program in every company will revolve around certain fundamental principles, but that in each company there will be conditions which call for special training. These special conditions should be made clear by means of what is known as the job analysis and by the preparation of a definite set of specifications for each type of job in the Marketing Division.

Job analysis as applied to salesmen is comparatively new, and in many ways is much more difficult than to make an analysis of a production job. In the first place the salesman is seldom under direct supervision. In the second place, the job of selling is more complicated, depending more upon individual personal traits than upon the accomplishment of a certain specific and measurable task.

Hence, the job analysis in selling will revolve around the

methods which form the bases of what may be termed scientific salesmanship. The American Management Association divides these methods into habits concerned with action, language, and thinking:

1. Habits of action include everything that the salesman does; hence the job analysis should set up as an objective every duty the salesman must perform in this particular company.

2. Habits of language include what the salesman should say to his customers. It has been well demonstrated that there are certain best methods of approach, certain arguments which are most effective, certain answers which will overcome objections in the best manner. The job analysis sets up a standard for the actual conduct of the sales process.

3. Habits of thinking include those which have been proved helpful in the selling process. Since the salesman is under any conditions inclined to be mercurial, these habits of thought will often determine his attitude towards his job, and the development of the opportunities before him. The methods for maintaining morale will be largely built around the objectives set up in this preliminary job analysis. Habits of thinking naturally will be of universal application to all selling jobs. Hence it will be particularly valuable to obtain the experience of other companies along these lines.

Job analysis will also take into consideration the difficulties and obstacles to be met by the salesman, and will include in the training course the best methods of overcoming them. In one company, an investigation was made of men who had left the employ in order to find out what had been the reason for their leaving. On the basis of this investigation it was possible to change conditions so that turnover would be reduced in the future.

**Training.**—Under the scientific marketing system, every man in the Marketing Division should be trained for his special job. In actual practice, the problem of training the selling force is usually the greatest. Generally speaking, there are three possible methods of training, all of which are good in certain cases and all of which can be combined if desired. These are:

1. Pre-training, either by a company school or by special instruction.



2. Training on the job, either by correspondence, special representatives, or otherwise.

3. Training by transfer from one department to another.

Pre-training is especially valuable for the coaching in principles and theory; training by transfer insures an all-round knowledge of the company and its problems; training on the job gives that drilling which is so necessary to insure that the previous training is remembered and observed. It is obvious that the best and most scientific training course would embody all these various elements.

In this connection it is interesting to note the suggestions making up a training course for salesmen, as prepared by the American Management Association on the basis of Dr. W. W. Charters' book on Curriculum Instruction:

1. Determine the major objectives of the training course. This is done by means of the job analysis.

2. Break up the policies of the company and the activities of salesmen into practical working units. This means showing how a certain thing is done.

3. Arrange the training material in the order of importance. This differs with the individual company. The most important topics should come first.

4. Raise to positions of higher order in this list those ideals and activities which are high in value for new salesmen but low in value for older salesmen. That is, the new salesmen must learn much routine which the older salesmen already know.

5. Determine which of the policies and activities listed should be handled in the office or classroom and which should be taught in the salesman's territory. That is, company policies would be taught in the classroom, the nature of the product by apprenticeship in the production department, and final sales training by a field instructor, thus combining the three types of training.

6. Collect the best practices of salesmen in other companies.

7. Arrange the training material in the order in which it can best be assimilated by the salesmen. This means primarily grading for difficulty. Fig. 34 shows the outline of a training course prepared for machine-tool salesmen by the National Machine Tool Builders' Association.



### I. DEVELOPMENT OF SALES ABILITY

- (a) Analysis of prospect
- (b) Selling power of proper presentation
- (c) Importance of complying with selling system
- (d) Salesmen's reports
- (e) Punctuality in appointments
- (f) Persistency in calls
- (g) Honesty in representing product
- (h) Importance of approach
- (i) Ability to think and relate thoughts
- (j) Analysis of territory
- (k) Conservation of time
- (l) Value of knowing when to stop talking
- (m) Unqualified belief in product

### 2. DEVELOPMENT OF KNOWLEDGE OF PRODUCT

- (a) Experience by actually having made or used product
- (b) Technical points or advantages in product
- (c) Salient features which can be based on engineering principles or technical features.
- (d) To simply and convincingly present the product
- (e) History of product
- (f) Knowledge of raw materials used
- (g) Knowledge of physical capacity of plant
- (h) Knowledge of factors that influence delivery
- (i) Knowledge of usefulness of product
- (j) Knowledge of performance of product

### 3. FAMILIARITY WITH COMPANY'S POLICIES

- (a) Standard of ethics
- (b) Policy in rendering service
- (c) To what extent concern is responsible
- (d) Knowledge of attitude toward competition
- (e) Knowledge of advertising policies
- (f) Knowledge of policy on adjustments
- (g) Knowledge of traffic regulations and policies
- (h) Knowledge of relations with dealers and agents
- (i) Knowledge of sales manual

### 4. FAMILIARITY WITH FINANCE

- (a) Knowledge of terms of sale
- (b) Familiarity with market conditions
- (c) Close study and analysis of company's statistics
- (d) How to read signs in market
- (e) Peculiarities of others in financing sales
- (f) Familiarity with instruments of credits, such as drafts, notes, chattel mortgages, acceptances, shipping documents, etc.

### 5. DEVELOPMENT OF PERSONALITY

- (a) Personal magnetism
- (b) Power of speech
- (c) Quick thinking
- (d) Analyzing prospect
- (e) Habits of action
- (f) Truthfulness, punctuality, neatness
- (g) Attention to business
- (h) Reliability
- (i) Attitude toward competitors
- (j) Self-confidence

FIGURE 34. OUTLINE OF TRAINING COURSE

This is the proposed course of training submitted by a committee of the National Machine Tool Builders' Association, with the recommendation that each machine-tool salesman should be required to take it. It shows a marked tendency to correct the former one-sided system of training which emphasized only high-powered salesmanship.—*Printers' Ink*, October 12, 1925, p. 86.

**Methods of Pre-training.**—Probably every company of moderate size should make some definite provision for schooling, even though it consists of nothing more than an assistant to the Marketing Manager and a clerk. This would be sufficient to give instruction to raw recruits in marketing practice, and various other courses, particularly in regard to market analysis, planning, and selling.

## **Things to Check Up Before the New Salesman's Training Is Complete**

1. Have him repeat the new mechanical feature demonstration sales talk (covered in Part II, Item 1.)
2. Have him write an order in all its details—you acting as the prospect. (Covered in Part III, Item 4.)
3. Have him give a demonstration with "A Ride in a Chevrolet" with either you or one of your organization acting as the prospect. (Covered in Part IV, Item 4.)
4. Have him give you a road demonstration, and be sure he knows how to properly handle the car and give a good sales talk ending with asking for the order and bringing the prospect to the sales room. (Part IV, Item 5.)
5. Have him turn in his list of review questions on the booklet "The Chevrolet 6% Purchase Certificate—Where, When and How to Sell It."

FIGURE 35. HOW THE CHEVROLET COMPANY PLANS A TRAINING COURSE FOR ITS DISTRIBUTORS' SALES FORCE

The company which does not have contact with consumers under its own control can often insure bettered conditions by preparing scientifically formulated schedules of instruction to be used by distributors.

The preliminary schooling will be particularly important at first because it will be neither feasible nor possible to get experienced men of the type desired.

The character of the pre-training will depend upon the nature of the company's sales problems, and upon its size. A company whose sales force merely has to take orders will have a simpler training problem than the one whose sales force must render expert selling service.



Where the sales force is widely scattered, as it is when the firm maintains branches throughout the country, the training must necessarily be simpler than when a large central school is conducted with expert teachers. Some companies give short preliminary training in their branches, and then take the promising material for further instruction at the home office.

Some companies, instead of maintaining a regular school, arrange to have new employees spend a few hours in each division of the company, where they receive talks. It is doubtful whether this is such an efficient method as the central school under an experienced teacher.

Another complication enters where the sales force is under the control of distributors, as is the case in the majority of automobile companies. The Chevrolet Company, in this connection, makes use of a booklet giving instructions to dealers as to the best method of training their sales forces. Fig. 35 illustrates what the new salesman should be proficient in before his training is completed.

**Training on the Job.**—The majority of companies already realize that pre-training is not sufficient, but that this preliminary education must be followed up with actual instructions in selling. This can be given either by correspondence or by means of field instructors. The correspondence method is admittedly less satisfactory than training on the job, but is often necessary when the sales force is widely scattered, or when the company is too small to afford a field instructor. Fig. 36 shows the outline of a training course for salesmen of Studebaker cars, conducted according to the methods of the Business Training Corporation. Fig. 37 shows the form for rating salesmen who have taken the course.

Salesmen for some firms, such as the American Rolling Mill Company, are given special schooling while working, although not during the company's working hours. This course of study covers a period of two years and includes such subjects as chemistry, physics, general metallurgy, blueprint reading, economics, industrial history, salesmanship, psychology of business, business law, correspondence, and public speaking. In other words, here is an attempt to supply the deficiencies of the ordinary salesman.

The Burroughs Adding Machine Company, which has always been a pioneer in selling methods, has prepared a selling and



## **Brief Outline of the Course**

### **Unit I—Impressing Studebaker Value**

Why organized selling beats hit-or-miss selling; the best procedure in greeting prospects, in showing the car to new prospects, and in finding out what the prospect wants; impressing the prospect with Studebaker value in the first showing and sales talk; how to avoid premature discussion of trade-in allowances and other pitfalls at the outset of the sale.

### **Unit II—Demonstrating Studebaker Performance**

The real purpose of road demonstrations; the best procedure; proving the exceptional performance of Studebaker cars; increasing the prospect's desire through the accompanying sales talk; how to make sales talks convincing and resultful.

### **Unit III—Explaining Studebaker Dependability**

How to handle the prospect who wants to know; when and how to explain mechanical features; strengthening the prospect's confidence through the reserve talk on features of engineering design, materials, and workmanship; how to bring out other elements in the reserve talk which will help to insure the sale.

### **Unit IV—Overcoming Objections and Doubts**

How to dispose of objections in such a way as to satisfy the prospect without raising arguments or new objections; handling unfavorable personal reactions; meeting competitive claims and criticisms; when and how to make competitive comparisons; swinging back into constructive selling.

### **Unit V—Dealing With Prospects**

Importance of good sales technique; a working classification of automobile prospects; adaptation of selling methods to individual prejudices or requirements; intensifying the prospect's desire for a Studebaker car; handling difficult situations; clinching the order

### **Unit VI—Reaching Out for Prospects**

Practical methods of analyzing territory and locating fresh prospects; securing the cooperation of Studebaker owners; cultivating boosters and other good sources of new prospects; getting in touch with the new prospect; using system to help build sales; opportunities in Studebaker salesmanship.

FIGURE 36. OUTLINE OF TRAINING COURSE USED BY THE STUDEBAKER CORPORATION

Training on the job can sometimes be carried on successfully by means of correspondence courses. The individual salesmen are enrolled in the course and given a definite program of instruction.

# SALES CASE I

## QUESTION SHEET

Subscriber's Name .....

Address .....

City

State

File No. from mailing label ..... Grade.....

(NOTE: The Arabic numerals refer to corresponding numbers on the margin of the Sales Cases. Since the case is based on actual interviews, it suggests a great number of possible questions regarding sales tactics and the like, which it might be interesting to take up; the questions below are confined, however, to points discussed in Unit I. Indicate your answer to each question by a cross in the square before the word you select and, if you wish, add brief explanations or comments on a separate sheet. Your answers will be graded and returned to you with an Analysis of the Sales Case.)

I. Did the salesman use a good form of greeting at point (1)?

☐ Yes

☐ No

II. Was his question at point (2) well chosen?

☐ Yes

☐ No

III. Did the salesman use a good method at points (3), (4), and (6) of handling the prospect's question as to his trade-in allowance?

☐ Yes

☐ No

IV. Was the salesman justified in assuming that the right model on which to concentrate his sales talk was the Big Six sedan?

☐ Yes

☐ No

V. Did the salesman give at points (8) and (9) an adequate statement of the Studebaker one-profit policy?

☐ Yes

☐ No

VI. Did the salesman make effective use of Studebaker facts in his talk on body construction at point (10) and in the walk around the car with the prospect, beginning at point (11)?

☐ Yes

☐ No

VII. Did the salesman show good judgment at point (12) in his handling of the situation?

☐ Yes

☐ No

VIII. Did he give a good answer at point (13) to the prospect's question as to the price of the car?

☐ Yes

☐ No

IX. Did the salesman use good selling tactics in his remarks at point (14)?

☐ Yes

☐ No

X. Indicate by check marks below which ones, if any, of the following results (stated in Chapter V) were beyond question secured by the salesman in this interview.

☐ 1. An impression on the prospect of Studebaker value which no competing salesman can break down.

☐ 2. Increased interest on his part in a Studebaker car.

☐ 3. Information regarding the prospect which may be valuable in making the sale.

☐ 4. Either an immediate road demonstration or a positive appointment for one.

N. B.—Kindly fill in your name and address at the beginning of this Question Sheet. The File Number called for will be found on the mailing label on the envelope in which your unit arrived. The Grade will be filled in before the Question Sheet is returned to you.

After indicating your answers, please mail this sheet promptly to:

BUSINESS TRAINING CORPORATION  
347 MADISON AVENUE, NEW YORK CITY

FIGURE 37. SHEET FOR RATING STUDEBAKER SALESMEN TAKING CORRESPONDENCE COURSE

service manual which every man in the organization has to study and upon which he must pass a written examination. Even the old salesmen take the course in bookkeeping. The company planned the manual so that the more elementary subjects came at the beginning, and these the older salesmen were excused from.

Fully as good results can be secured by training branch and assistant managers as with the sales force itself. For example, the Fuller Brush Company, with approximately 600 branch managers, has promoted these men from the sales force. They are then brought, with their assistants, to the main office in groups for two to four weeks' training in the basic duties of the branch manager, as follows:

- (1) Hiring
  - (a) Locating the proper number of the right kind of men
  - (b) Interviewing and selecting the right men.
- (2) Training
  - (a) Initial training of the new man in office and field work
  - (b) Continuous training and plans for holding the older men.
- (3) Management
  - (a) Managing the Manager
  - (b) Managing the organization as an organization
  - (c) Managing through the assistant managers
  - (d) Managing the territory
  - (e) Managing the office
  - (f) Managing or supervising the development of each individual through personal contact.

Fig. 38 shows the method of organizing marketing training by this company.

**Training by Transfer.**—The transfer of men can be made not only a method of training, but also a method of promotion. Each time a man leaves one department to go into another the move may be regarded as promotion. The scientific system of marketing does not aim to develop men to be experts merely in one line. Effort should be made to provide salesmen with every opportunity to become well-rounded. If a young man



just out of business school is hired, for example, he may be put in the Market Research Department, where he learns how the records of the company are kept. He has the further advantage of learning these in an objective and scientific manner. He may also be sent out in the field to gather statistics. In this way he gets a practical bird's-eye view of his future field of activity. He may then, perhaps, go into the Production Department to learn about the product and its manufacture, and then into the Service Department, where he becomes acquainted with the con-

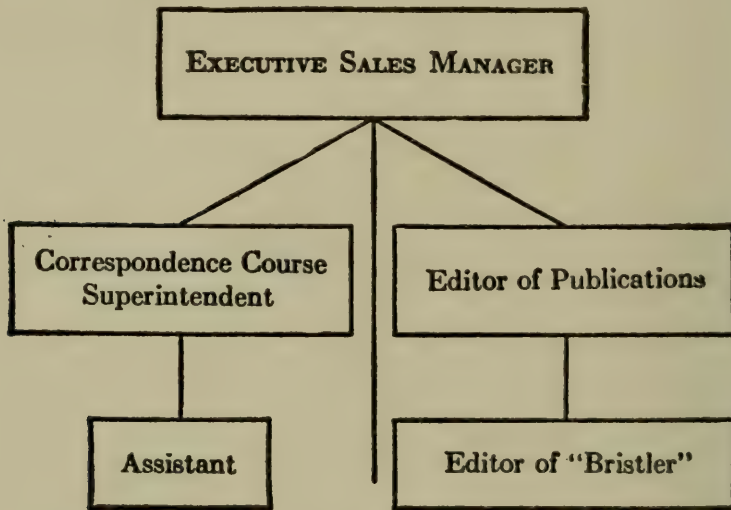


FIGURE 38. ORGANIZATION OF MARKETING TRAINING

This shows the relation of the various marketing activities of a personnel nature at the Fuller Brush Company. This company, with its system for selling from house to house, has an unusually difficult problem of training salesmen, and uses all the approved methods for doing so.

*(Metropolitan Life Insurance Co.)*

sumer's problem and where he learns to look at matters from the consumer's point of view. Here he also continues the process of getting acquainted with the trade and the product. It will probably be advisable also to have the young man go into the Marketing Planning Department for a time. This department is the creative brains of the whole Division, and while it has many activities which do not fall within the scope of the youthful salesmen, there are some routine jobs which will be of value to him, such as the planning of quotas on the basis of statistics from the Market Research Department. When he finally goes on the road, he is equipped from every angle to meet the problems which are sure to confront him.

This method of transfer is not, of course, practicable in all cases. Some men will inevitably remain order-takers, and such a thorough training, at such a considerable expense, would be wasted. It does not follow, however, that none but companies with engineering problems should train their sales force after this fashion. The transfer and promotion plan will prove equally valuable for firms whose men are not required to give engineering service, although such training is mainly given at present by firms whose salesmen have to deal with technical problems. The Chain Belt Company, of Milwaukee, for example, takes a young graduate, already trained in engineering, and puts him through the shops for a year. He is then given six months' training in the Engineering Department, then made a correspondent in the Sales Department, and finally sent out on the road.

**Training and Morale.**—It is almost never possible to reduce selling to a standardized mechanical process. As long as salesmen must be employed, it will be habitual to resort to some form of emotional stimulus. As a general rule, the morale of the organization must be kept up by constant use of some of the recognized methods of instilling *esprit de corps*. Some of these methods, such as contests for salesmen, have little of the instruction and training element in them. Others, such as the convention, the manual, the bulletin, and the salesmen's magazine, can combine both the elements of training and of morale.

In any functional scheme it is usually difficult to make clear-cut divisions, unless these are arbitrary. Thus, in giving to the Marketing Training Department supervision over methods of maintaining the morale of the sales force—a function which has hitherto been almost entirely in the hands of the Sales Department—the purpose has been to make use of the qualities of the Marketing Training Manager as teacher and inspirer. One method of obtaining morale is by employing a first-class teacher. The disciplinarian alone will never accomplish what can be brought about by force of personality. The Marketing Training Manager should for this reason be dynamic and capable of supplying the necessary energy to the sales force. Giving the Marketing Training Department charge of maintaining morale is not a revolutionary procedure, however. The large department stores have for years made this one of the functions of their



personnel departments, and everyone will readily admit the success with which they have solved the problem. As a matter of fact, they sometimes provide a separate section of the personnel department to take charge of this function.

In certain cases, the Marketing Training Manager must secure the cooperation of the other departments. The sales manual, for example, will not be entirely made up of training material. The sales convention, while organized and planned by the Marketing Training Department, must be carried out in cooperation with the Sales Department. So, too, with contests, where the Sales Department and Advertising Department must work hand in glove with the Marketing Training Manager.

**The Sales Manual.**—The sales manual is an attempt to publish in standardized form information which is valuable for the salesman's use. Obviously, the quality of the contents will determine the value of the manual. Hence it is not surprising to find that a number of companies, as a result of past failures, look scornfully upon it, and that others use it as a regular feature of their training course.

Since scientific marketing contemplates the setting up of standards wherever possible, it is held desirable to have a sales manual, preferably in loose-leaf form, so that new material and information may be added as received. The sales manual should not be concerned entirely with salesmanship; it should contain also a statement of company policies, of efforts which are being made to help the salesman by means of advertising and sales promotion, and other information necessary to give the salesman an all-around viewpoint. Fig. 39 shows the make-up of the sales manual used by the Alexander Hamilton Institute in training its sales force.

One of the most important points in regard to the manual is its use by the sales force. Some companies find that salesmen are apt to regard the manual as a gratuitous attempt by the company to teach them what they know already. By careful training and through the influence of a competent Marketing Training Manager, this attitude may be turned into one of looking upon the manual as a tool which makes for better efficiency.

**Bulletins, Letters, and House Organs.**—The Training Department should recognize from the outset that it is essential



to keep in close touch with the sales force at all times. The salesman is temperamental and, in the majority of cases, needs constant assistance and encouragement. Furthermore, it is often desirable to vary the method of rendering this aid, since if one scheme is used continuously, it may eventually lose its effect.

On the Training Department staff there may to advantage be a good industrial psychologist who at the same time is thoroughly

1. Historical Sketch of the Institute.
2. Selling Equipment.
3. The Standard Presentation.
4. Notes on the Standard Presentation.
5. Answers to Objections.
6. Side Lights (human interest stories that are woven into the Presentation to illustrate points made and to grip the prospect's attention).
7. Reserve Talks (selling points in addition to those used in the Standard Presentation.)
8. Organizing Territory.
9. The Men Enrolled.
10. The Attitude of the Home Office on Clubs.
11. Group Talks and Company Deals.
12. Miscellaneous Regulations.
13. The Value of Experience.

FIGURE 39. EXAMPLE OF SALES MANUAL  
of which the above is the table of contents.

This sales manual is used by the Alexander Hamilton Institute. It is made up of loose-leaf sheets ( $5\frac{3}{4} \times 8\frac{3}{4}$ ), printed on both sides, and bound in an attractive flexible leather cover. The manual includes everything the salesman needs to know in carrying on his work.

acquainted with the practical problems of selling. He may well have been a salesman himself at one time in his career. He will know how to get at the salesman's problems in a manner which will cause the least irritation and bring maximum results. In other words, he will be a specialist and will perform a specialized function in sales management. He will be attached to the Marketing Training Department, partly for the somewhat negative reason that it is the aim of a scientific marketing system to remove

all functions from the Sales Department which do not have to do with the actual selling process.

It would be out of place here to go into the technique of maintaining morale by bulletins, letters, house magazines, and other expedients. Suffice it to say that these methods are now being used successfully by many companies, with the object of encouraging and of giving information which will be useful in the salesman's daily work.

It may well be that the work of preparing literature of this kind may be shared with the Sales Department. The Sales Manager, who is essentially a functional foreman, must necessarily keep in constant touch with his force, but it will be possible to have the Training Department act as a staff adviser or perhaps prepare the portion of the material designed to give information. The information itself, of course, may originate with the Sales Department, but the Training Department will put it into the best possible form to effect results.

The very large company will, of course, require a special editor for its house organ, who may in addition prepare special bulletins and form letters for the sales force.

**Conventions.**—The purpose of conventions is usually twofold; one aim is to bring the whole organization together on the theory that personal contact between executives and employees will increase morale and inspire enthusiasm, and the other that it is a convenient method of imparting information of importance to the whole sales organization.

Certain companies do not believe in sales conventions because they think the element of entertainment and the expense of providing this overshadows whatever benefit there may be secured. These companies often provide smaller conferences instead of one central convention. It is sometimes possible, however, to budget convention expenses within a very close margin. Rules for convention expenses are published, which are to be observed by executives and men alike. This prevents a great deal of waste which has usually given rise to much criticism of conventions.

Some companies have both district and general sales conventions, the former occurring more frequently.

The importance of the Marketing Training Department in regard to conventions comes in the formulating of objectives, and

in the laying out of the program to attain them. Entertainment, while essential, is made to serve the main purpose of the convention, which is to better the morale of the organization and bring in increased profits through increased sales.

**Incentives.**—The best and most effective incentive is, of course, the method of remuneration, including some system of promotion on a scientific basis. This type of incentive has already been treated in Chapter IX. There is, however, another method of increasing sales which is often used—that is, the sales contest.

The sales contest has been criticized from a number of angles. One of the most serious faults found with it is its tendency to force selling and thus to bring about an unsatisfactory condition in the future from customers who have been oversold. Another criticism is that the conditions are not equalized. That is, the salesmen with the best territories, or the star salesmen, will win the prize.

On the other hand, sales contests are a proved selling device. A scientific system of marketing will endeavor to make use of such devices while ridding them of their objectionable elements.

The primary advantage of the contest is that it stimulates the spirit of healthy rivalry, assuming that conditions have been equalized, and assuming that the reward is commensurate with the effort expended. The subject matter of the contest may vary widely, as is witnessed by Fig. 40. The function of the Marketing Training Department lies in picking out the objective which will give the best results and contain the fewest objectionable features. Under such conditions, there is no reason why the sales contest should not be made a highly important feature of the sales campaign.

**Records and Ratings.**—The logical place for keeping personnel records is in the Marketing Training Department, which, by thus keeping track of the sales force, can apply stimulus and encouragement where it is most needed. Frank R. Jones, vice president and General Sales Manager of Johnson & Johnson, Inc., says he believes in individual treatment of each salesman, and that no group of salesmen can be welded into and treated as a composite mass.

There are certain standards which may be applied to the sales force, and ratings may be made upon the basis of these standards.



Thus Fig. 41 shows how H. G. Kenagy, Director of Training of Armour & Company, uses the graphic principle in rating salesmen. It is the essence of training on the job that the training

1. Number of calls per day.
2. Number of early morning or Saturday morning calls.
3. Opening up new accounts.
4. Getting bigger initial payments.
5. More regular attendance at sales meetings.
6. Getting men to fill out daily reports.
7. Getting orders above a certain minimum size.
8. Selling dealers in small towns or other places not regularly covered.
9. Opening up new outlets such as hotels and restaurants.
10. Getting "dead" customers to order.
11. Selling slow moving items that ordinarily receive a small percent of the salesman's time.
12. Getting customers to handle the whole line.
13. Increasing number of repeat orders.
14. Keeping down sales expenses.
15. Making demonstrations.
16. Spending time with jobbers' salesmen or educating retail clerks.
17. Making collections and getting credit information.
18. Sending in names for mailing lists.
19. Selling dealers on tying up locally with the company's advertising.
20. Putting up window or counter displays.
21. Helping dealers with their advertising.
22. Making reports and tabulations for merchandising and advertising departments.

FIGURE 40. POINTS USED FREQUENTLY AS THE BASIS OF CONTESTS

Sales contests should seldom be based upon volume of orders alone. The above list covers the more ordinary subjects which may be counted in a sales contest.—*The Blackman Company.*

should be suited to the needs of the particular salesman. Such rating scales are particularly valuable when the training must be carried on by the Branch Manager. Since the latter is seldom primarily a teacher, he must be given helps himself so that he can

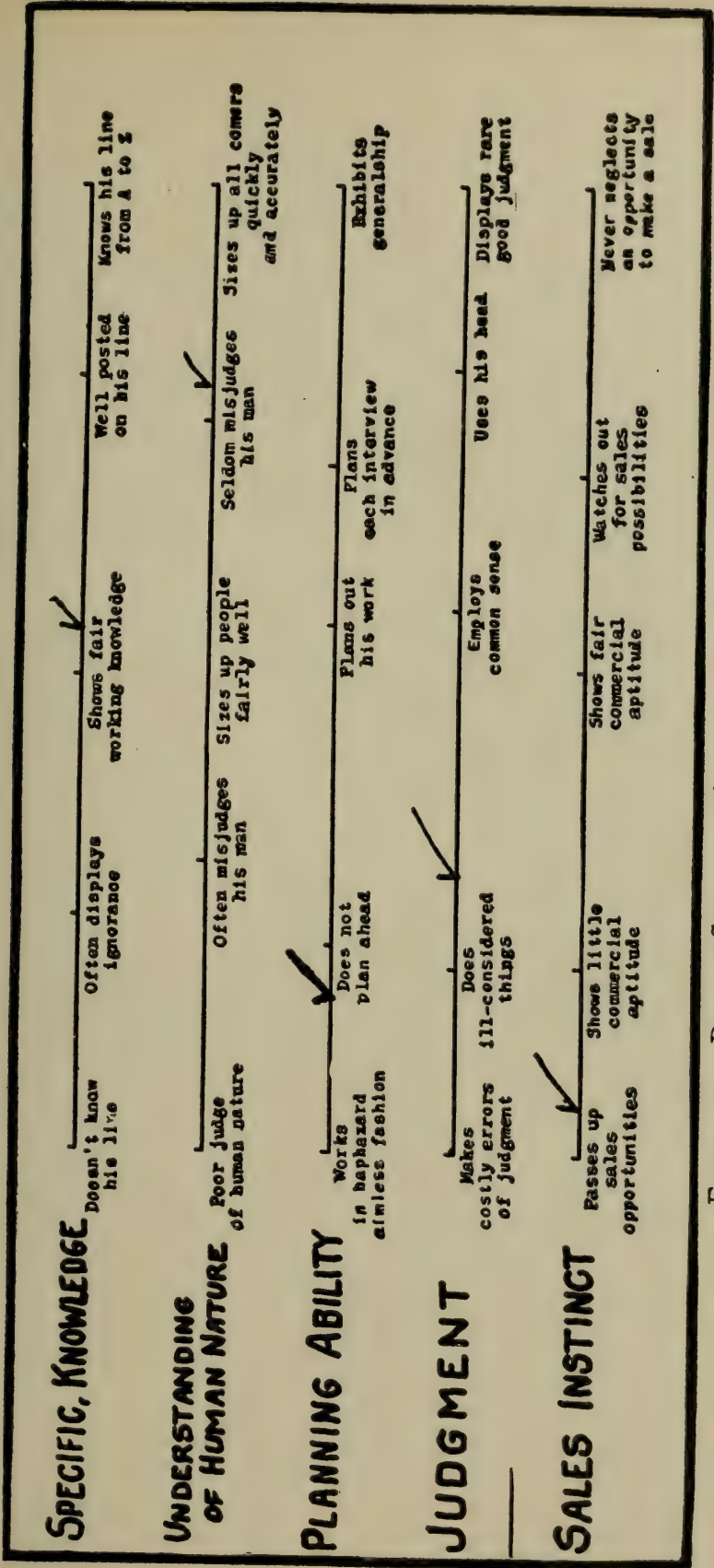


FIGURE 41. RATING SALESMEN ACCORDING TO GRAPHIC PRINCIPLE

A number of systems may be used for rating salesmen. The above form has the advantage of simplicity, especially where it is devised for use by branch managers. For example, under the third head, if a man has been rated slightly below the point on the scale which carries the phrase "Does Not Plan Ahead," the manager who made the rating should devise and provide the training which will correct the fault.

Form 3791 BX 5M 1-26-26 98591

**ARMOUR AND COMPANY**  
PERSONNEL DEPARTMENT

BRANCH *Youngstown, Ohio*  
DIVISION *Clarkland*

**JUDGMENT BLANK FOR SALESMEN**

Salesman's Name *Ernest Sellers* Position *Beef Salesman* Age *34* Years in present position *4 1/2*  
 Chief previous occupation (before coming to Armour and Company) *Grocery Clerk* No years *2* Years with Company  
 Initial salary (as salesman), \$ *135* Present salary, \$ *145* Married ☒ Single ☐ Number of dependents *3* Height *5' 11"*  
 Weight *180* Nationality *Scotch-Irish* Schooling (last grade reached in school) *H.S. Graduate*  
 Subjects of specialization, if any \_\_\_\_\_ Night school or correspondence courses taken *econ. of Packaging Industry*  
 Owns Company stock: Yes ☒ No ☐ Financial standing: Owns home: Yes ☐ No ☒ Saving habits: Yes ☒ No ☐ Sell and family willing to move from present location: Yes ☒ No ☐ Positions which he has held in the Company, with length of time in each *Stock Clerk 1 yr; Shipping Clerk, 6 months; Salesman, 5 yrs; Beef salesman, 18 months*

**Judgments on Personal Characteristics and Performance**

Directions: Judge the salesman on each of the points listed under the six headings below. Use the terms shown at the top of the columns to the right. Instead of writing in the words, simply enter the corresponding column number. Example: You judge the salesman to be "Below Average-Doubtful," in Industry. Place the figure 4 on the line after the word Industry in Group 1. After you have made all the judgments in Group 1, consider the relative value of each point and enter your general judgment on Personality Characteristics in the proper column at the right, by making a check (✓).

POINTS TO BE CONSIDERED				1 EXCEPTIONAL OUTSTANDING	2 ABOVE AVG. VERY GOOD	3 AVERAGE SATISFACTORY	4 BELOW AVG. DOUBTFUL	5 POOR UNSATISFACTORY
<b>Group 1—PERSONALITY CHARACTERISTICS</b>								
Appearance	<i>3</i>	Industry	<i>2</i>		✓			
Aggressiveness	<i>3</i>	Tact	<i>6</i>					
Self-Control	<i>2</i>	Loyalty	<i>1</i>					
Adaptability	<i>2</i>	Enthusiasm	<i>1</i>					
<b>Group 2—PHYSICAL CHARACTERISTICS</b>								
General health	<i>2</i>	Energy	<i>1</i>		✓			
Voice quality	<i>3</i>	Endurance	<i>1</i>					
<b>Group 3—TRADE KNOWLEDGE</b>								
Company policies	<i>3</i>	Trade conditions	<i>3</i>			✓		
Company products	<i>2</i>	Retail merchandising	<i>3</i>					
<b>Group 4—DEVELOPMENT OF BUSINESS</b>								
Per cent of outlets sold	<i>1</i>	No. of items per order	<i>2</i>					
Trading ability	<i>1</i>	Ability to keep accounts clean	<i>1</i>		✓			
collections	<i>1</i>	Ability to increase distribution and volume with old customers	<i>1</i>					
<i>1</i>		Ability to develop new outlets	<i>2</i>					
		Ability to develop goodwill for Company among trade	<i>1</i>					
<b>Group 5—REACTION TO SUPERVISION</b>								
Responsiveness to sales suggestions	<i>2</i>	Attitude toward constructive criticism	<i>3</i>			✓		
<b>Group 6—PROBABLE EXECUTIVE ABILITY</b>								
Ability to plan his work	<i>2</i>	Ability and willingness to do detail work	<i>4</i>			✓		
Standing with the local organization	<i>1</i>	Conduct in sales meetings	<i>1</i>					
Resourcefulness	<i>2</i>	Judgment	<i>3</i>					
		Leadership	<i>2</i>					
<b>PROMOTIONAL POSSIBILITIES (SUMMARY OF ABOVE POINTS)</b>								
<input type="checkbox"/> Class C Unsatisfactory in Present Work Chief defect _____								
How can it be remedied? _____								
What work might he be fitted for? _____								
What action is planned? _____								
<input type="checkbox"/> Class B Satisfactory for Present Work only								
Chief limitations _____								
Special training which would be valuable _____								
<input checked="" type="checkbox"/> Class A Has Capacity for Advancement Positions to which he can advance <i>Asst. S. M. Branch</i>								
Ready now <input type="checkbox"/> Needs more experience <input checked="" type="checkbox"/> If so, specify <i>As assistant to a manager</i>								
Ready about (time) <i>One to two years</i> Needs special training <input type="checkbox"/> (Specify) <i>Handling routine and details. See also points concerned above.</i>								
<b>GENERAL REMARKS</b> <i>Giving him special attention now, on personal file weak, nervous, and having him study merchandising methods. Will take up other matters as rapidly as possible.</i>								
Date	<i>7/4/26</i>	Signed	<i>E. H. Johnson</i>	Approved	<i>lch</i>			
		His position	<i>Mgr.</i>			His position	<i>Supt.</i>	

FIGURE 42. PLAN FOR RATING MEN

These "judgment blanks" are consulted when vacancies are to be filled, and a comparison of several blanks usually brings forward the best man. A study of the blank will give some idea of how completely the men are judged in relation to their work. Care is taken to make sure that the blanks are made out in uniform fashion, so that they may be the more readily comparable.

Printers' Ink Monthly, Sept., 1926.



train his sales force properly. Once the central Training Department has set up standards, and has tabulated them, the Branch Manager can use his judgment in rating his force. He then applies remedies applicable to the particular condition.

It is often preferable in actual practice to have the ratings made by two or more persons, so that individual feeling or judgment may not play too great a part. Thus, in addition to the Branch Manager the traveling Field Supervisor might make his own report.

It is obvious, in any case, that no plan of scientific training can be complete without an adequate system of records, which will tell the Marketing Training Manager at any moment just how efficient any particular member of the sales force is. The records will contain spaces for tabulation of the qualifications regarded by the company as most important in the salesman, as well as of his performance, such as volume of sales, number of calls made, and other factors. These records will also serve as the basis of remuneration and promotion. Fig. 42 shows such a record form.

## CHAPTER XIII

### SELLING

THE purpose of scientific marketing has not been achieved until the selling function has been isolated. Training, research, and planning are for the most part staff activities designed to serve the major line function of selling. If they take away from the traditional sphere of the Sales Manager's authority, they, in turn, permit concentrated effort along a single line. Even so, the Sales Department is left with ample duties to perform. These may be divided into direction, control, coordination, and routine.

In the first place, the Sales Manager will have charge of directing the selling machinery. He will in all probability have a regular sales force, assisted perhaps by junior, specialty, or missionary salesmen. He may also have a system of branches to administer. He must do this by personal means, either going on the road himself or sending representatives to take his place if the force is too large, or he must use correspondence as a means of direction. Preferably both methods should be combined, since the sales force needs the stimulus of personal contact and the effect should be maintained between visits by means of correspondence.

Control of the sales force is carried out by the judicious employment of incentives, discipline, and stimuli of various kinds. Control implies a system of reports from the sales force, both of sales activities and of expenses incurred in the course of selling. The Sales Department, since it is engaging in a line activity, will carry out the policies which have already been formulated by the Planning Department.

Coordination is an extremely important part of the selling function. Not only must the activities of the sales force itself be coordinated, but there must be constant contact with distributors. Here again the Sales Department acts as the machine which carries out policies and plans already formulated.

Finally, there are a number of routine activities connected with

the keeping of sales records, and provision for efficient handling of orders as they are received.

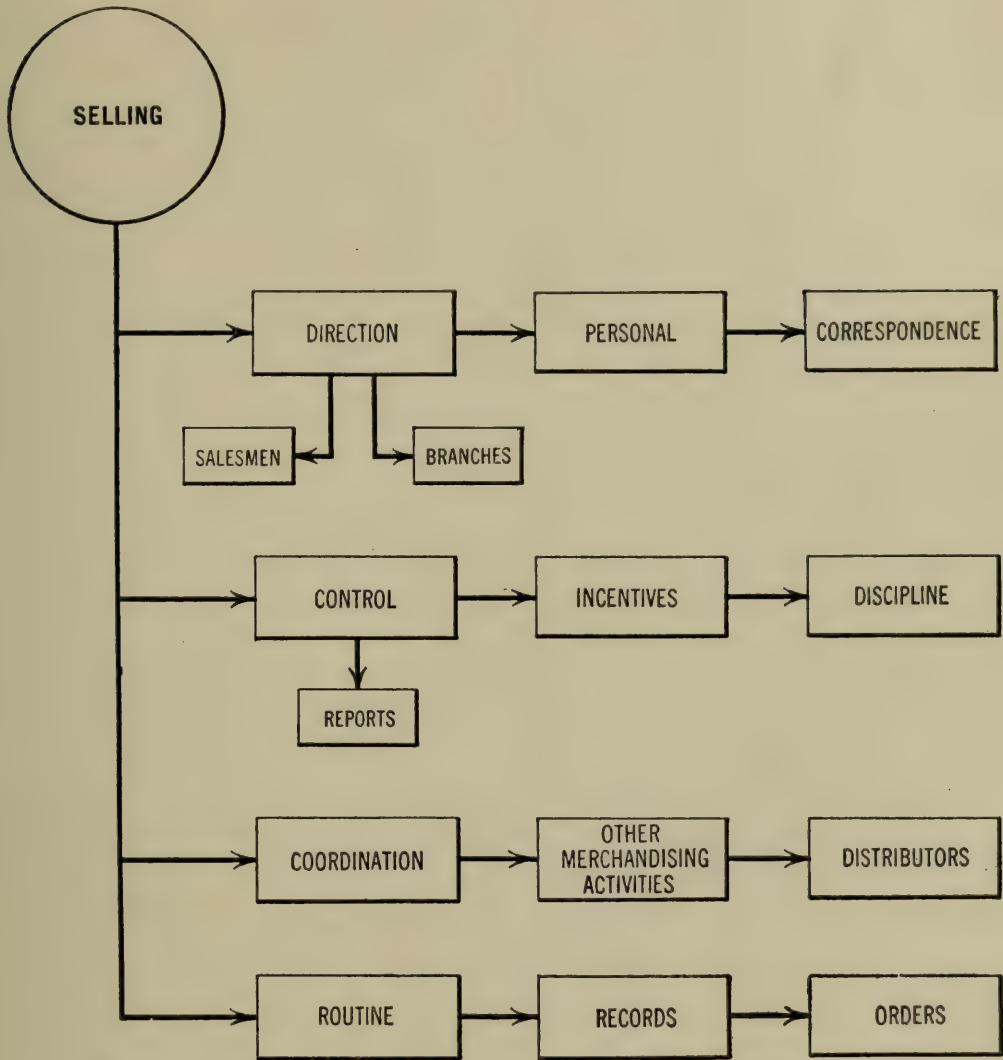


FIGURE 43. FUNCTIONALIZED ACTIVITIES OF SALES DEPARTMENT

This chart merely suggests some of the more important duties of the Sales Department, under a system of Scientific Marketing. The functions would vary with different companies. Some, for example, might have to provide for many functions in the group usually going under the term of Sales Promotion. These functions might belong here, or under a department specially organized for the purpose, or under the Advertising Department.

Fig. 43 shows the functionalized activities of the Sales Department.

**Organization of Sales Department.**—The conception of a Sales Department from the scientific standpoint calls for a Sales



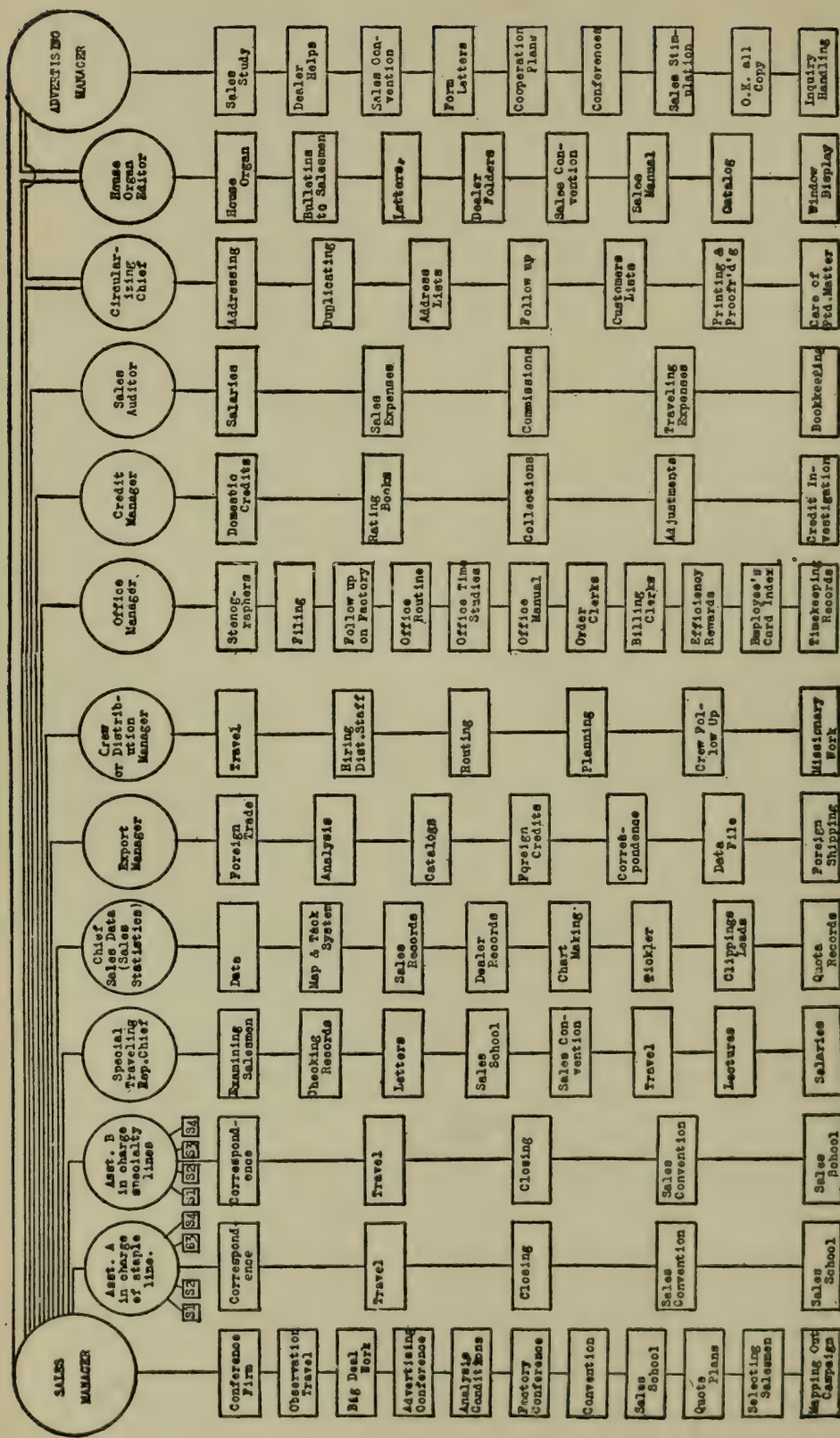


FIGURE 44. THE ORGANIZATION OF A SALES DEPARTMENT ACCORDING TO THE OLD IDEA. (From Modern Sales Management, By J. George Frederick.)

The principal feature of this form of organization is the full-importance of the sales manager, who is responsible for all activities, both staff and line. Here, the Sales Manager is charged with all marketing activities. It is noteworthy that, according to this plan of organization, departmentization is according to secondary marketing functions (e.g., Staple Lines, Specialty Lines, Export, etc.), rather than according to the primary marketing functions (i.e., Training, Research, Planning, Sales, Advertising, and Service).

Manager, reporting directly to the Marketing Manager, and who is in direct charge of sales and nothing else. If he should originate an idea, before putting it into practice, it must be routed back through the Planning Department, as are all other ideas. The Sales Department is purely a line activity, carrying out plans which have been carefully developed and tested.

In the small company, the Sales Manager will control the sales force himself. When his task becomes too large, he delegates his authority through assistants and branch managers. In the

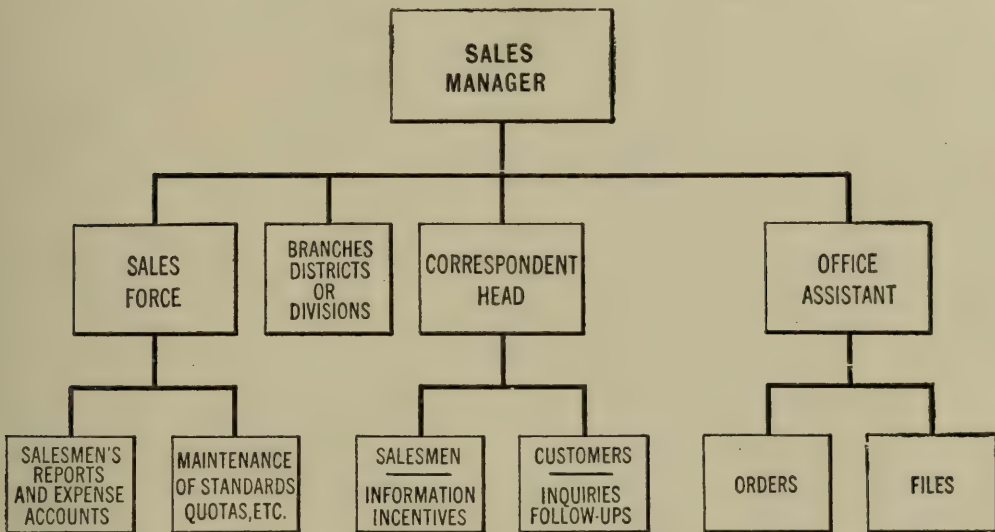


FIGURE 45. ORGANIZATION OF SALES DEPARTMENT UNDER A PLAN OF SCIENTIFIC MARKETING

Each of these main divisions has to do with sales work only and all are entirely line functions. The Sales Manager has at least three assistants in charge respectively of branches, divisions, or districts, second, correspondence with customers and salesmen, and third, office routine connected with reports, records, orders, and files. The Sales Manager himself is a functional foreman in active charge of field operations along lines laid out by the Planning Department and delegated to him by the Marketing Manager.

ordinary type of organization, as it exists today, the Sales Manager occupies a position which is, under the scientific system, termed Marketing Manager. Fig. 44 shows a model Sales Department according to the old idea.

Fig. 45 illustrates a plan of organization which limits the functions of the Sales Department to those directly connected with the actual selling. The Sales Manager here is assisted by four men, in charge, respectively, of the branches, of the sales force or forces, of correspondence with the sales force and with



customers, and of the necessary office work entailed in connection with salesmen's reports and expense accounts and the receipt and filling of orders. It is not to be supposed that the adoption of scientific marketing will result in all the simplification which seems at first apparent by a comparison of Figs. 44 and 45. Under the system indicated in the latter figure many of the functions provided for under the conventional form of sales management are delegated to other departments of the Marketing Division.

**The Sales Manager.**—The fundamental requirement for a Sales Manager is that he be able to handle men in such a manner as to inspire loyalty and secure the greatest results. He must, in other words, have a dynamic personality. Himself an expert in selling, he must be able to direct others and see that they expend their efforts to best advantage.

His efficiency will depend largely upon the degree to which he is able to divest himself of the innumerable details now present as part of the Sales Manager's task. Not only must he be able to avail himself of the staff service which is furnished him, but he must also choose subordinates who will see that the paper work of the Sales Department functions smoothly, requiring merely advisory supervision on his part.

As is the case now, his work will take him inside and outside the office. The former should require a minimum of his time if the organization operates smoothly. In the case of a large organization, of course, he will have to delegate much of his outside work to capable subordinates, but in the firm of moderate size a good share of his time will be spent in the field with his men.

The Sales Manager who remains in his office is like the general who never visits the battlefield. No amount of staff work can supply the deficiencies due to his lack of personal contact. The Sales Manager under the scientific plan would ordinarily be promoted from the ranks. Without the actual experience he could never be able to exercise direction and control to the best advantage.

**The Salesmen.**—Under the system of functionalized marketing, the problem of organizing salesmen is easier than it is in the older type of concern. Whereas formerly the salesman had everything to do which was in any way connected with marketing, his task is now confined to selling. The preliminaries



have been taken care of for him, he has been relieved of details, his plans have been perfected in advance, and all possible information and assistance have been tendered to him.

It is to the Sales Department that the more aggressive men of the Marketing Division will tend to gravitate, for selling is, after all, the governing function in marketing, and will continue to be so as long as a buyer's market prevails. Selling under a plan of functionalized marketing takes on added dignity and meaning, since it presupposes a thorough grounding in the other marketing functions. The normal course of promotion will be from other marketing departments to the Sales Department. Accordingly, among the men who are sent out into the trade will be found some of the most able of the company's personnel. This does not mean, of course, that there will not be positions of equal dignity and prestige for men of the non-selling type. Under a system of functionalization, each man will do that work for which he is best fitted.

In the past, too much of a premium has been set upon sales simply as sales. The man who could bring back orders was forgiven for the breach of almost any policy or rule. He could offer deliveries which were impossible of fulfillment, he could set prices without authority, he could make misstatements and false promises, and could continue in this behavior as long as he "brought home the bacon". Most companies which have permitted such a state of affairs have already found that it cost more than was gained by it.

E. C. Simmons, late founder of the Simmons Hardware Company, once said, "No man can hope for success representing his company on the road unless he knows his business better than the man to whom he sells his goods." Even then the most successful sales managers had begun to realize that high-powered salesmanship was not sufficient. Scientific marketing goes a step further. It requires the salesman to know the business of his customers almost as well as they know it, and sometimes better than they know it.

**Special Sales Forces.**—The sales force should not be expected to spread its efforts over too much ground. Its fundamental aim is sales. Consequently, the company may require the services of other types of sales forces for auxiliary or supple-

mentary purposes. The most usual forms are the junior, specialty, and missionary forces.

The junior sales force originated as a means of relieving the high-salaried and thoroughly experienced salesmen of the routine duties of preparation for the actual process of selling. Many companies make this preparatory work a part of the training for prospective salesmen. Not only are juniors supposed to conserve the time spent by the older members of the force, in taking care of extra-selling activities, but they are also able to do a great deal of promotional work which it would not ordinarily pay to have done by the higher-priced men.

A sales engineering force may be employed where technical advice or service is required. This matter is treated more fully in the chapter on Service.

The specialty sales force is used wherever intensive sales effort is demanded. Thus, when a product is to be introduced in a new territory, the specialty sales force, which has been trained for the purpose, secures distribution. It may also make demonstrations and give out samples. The specialty sales force is normally used for the purposes of supersalesmanship, but there is no reason why it should not equally well discharge the higher duty of scientific selling. The great criticism has been that most specialty men will do anything to secure an initial order. Such efforts often do more harm than good.

The missionary sales force aims primarily at creating good will among distributors. As a rule, missionary men do no selling, but give training to dealers' sales forces, install window displays, and conduct demonstrations. Here again, the chief cause for complaint has been the selfish attitude on the part of the seller. No missionary efforts will succeed unless the emphasis is placed on the profit to be secured by the customer or consumer. There is a great variety of practice among manufacturers. Some use missionary efforts only at the request of dealers, others will ask permission first, still others will go out and sell the dealers' customers first, and then use these orders as a lever for securing distribution.

**Specialized Sales Forces.**—The division of labor principle is being applied more and more to selling efforts. Thus, a firm may divide its sales force according to the industries to which it sells. One firm which sells to a dozen different industries has



a special industrial sales expert for each industry, such as textiles, steel, machine tools, and automotive. It is the duty of the sales specialist to be familiar with selling problems and trade requirements of his particular industry. This man is located at the factory as headquarters, but spends much of his time in the field, to keep in contact with the trade. That is, the automotive man spends much of his time in Detroit, the steel-mill man at Pittsburgh, the textile man in Massachusetts and North Carolina, and the machine-tool man in Cincinnati.

These specialists are supported by a general sales force which operates territorially. There are, for example, branch managers who are on the job in the territory all the time, and who have to be able to sell to almost any line of business. They are not expected to know the technical problems as well as the specialists.

The above is an example chosen from the field of industrial products. Yet even in the case of consumer products it is not always advisable to rely on a single sales force. One manufacturer of food products has separate forces of salesmen for jobbers, chain stores, and independent dealers. Other firms divide their sales force according to the lines of products.

**Sales Promotion as a Selling Function.**—Some products cannot be sold efficiently without some promotional assistance calling for the maintenance of a department intended to supplement and support the sales force. Thus a special staff of demonstrators may be employed in certain cases. The Florence Stove Company finds demonstrations to be one of the best methods of building sales and of educating dealers and their sales clerks. Since the product is seasonal, demonstrators are hired for only part of the year and put in charge of the district managers. Since these demonstrations have almost always resulted in increased profits for dealers where they are held, they are much in demand.

In most lines, however, demonstrations constitute an integral and essential part of the sales process, as in the case of automobiles. Here it is the salesman himself who gives the demonstration. The policy of demonstrating will be initiated, of course, by the Planning Department after careful advance testing of the most effective methods.

Particularly under the scientific system, where the consumer is always the focus, is it desirable to show the product in action.



Hence demonstration takes on added importance. Too much care can hardly be expended in making up the salesman's traveling kit. He must be able to demonstrate the product to best advantage, and, if possible, under conditions approximating actual use.

Sampling as a sales activity is important, provided it is carefully coordinated with other selling efforts. Samples may be sent by mail, distributed from house to house, or given out by the salesman or the dealer. They may be used to secure distribution, to create good will, to increase sales, to break down prejudice, or for other reasons. Scientific marketing neither approves nor rejects them. In each case they must prove their utility and be incorporated as a company policy only after they have been carefully tested out.

**Distribution and Sales.**—The size and scope of the Sales Department will be governed by the policy of the company in regard to distributive channels. When a company does not wish to sell through middlemen, when it finds it difficult to sell through a centralized office, or when service requirements compel local representation, it is customary to establish branches at strategic points.

Branches should be under the direct control of the Sales Manager in so far as their selling activities are concerned. Some branches, of course, may be established primarily as warehouses, but in this case also the Sales Manager should have charge of them. It is customary, when branches are used, to have salesmen operate directly from them, in which case the Branch Manager becomes a Sales Manager in the character of the functions which he performs. Promotion to the position of Branch Manager should be an incentive of great importance.

The branch form of organization in the past has often proved difficult to handle. Middlemen resent branches, overhead expenses are increased, and the records system becomes complicated. Furthermore, it has not been easy to secure branch managers of the desired type. Under a scientific system of training, by the time a man has become an experienced salesman, he should also be a candidate for a branch or district managership.

The Sales Manager will not ordinarily be able to superintend the entire sales force personally. He will have to employ subordinates for this purpose. There may, for example, be district or individual sales managers, allocated on a territorial basis.

A concern with a large number of branches is in the same position as the chain store. It must have a carefully worked-out system of supervision and control to insure uniformity of policies and practice.

**Personal Contact.**—In large sales organizations the Sales Manager tends to get out of touch with his men. His attention is so much taken up with other duties that he must delegate nearly all actual contact with the force. Perhaps once a year he appears at a convention and delivers an address. The rest of the time he makes known his fiats through subordinates. The result is that the sales force loses its unity. There may be constant effort to keep up morale, but such effort lacks vitality. The situation is like that of the absentee landlord who has his estates managed by agents. No matter how carefully he studies the reports made to him, he can get no adequate idea of the actual situation.

Hence a scientific marketing system demands that the Sales Manager should keep in touch with his men. This is made possible by relieving him of details and routine duties. If his force is so large that he cannot talk to each one individually, he should at least hold district or branch conferences and consult with them in small groups. He must be the coordinating force which will weld all these separate entities into one unit, operating under the same rules, observing the same policies, and moved by the same *esprit de corps*.

A great deal of waste has ensued under the usual system because of the failure of the management to keep men informed of everything that concerns them. In so far as policies and general procedure are concerned, this information should come from the Sales Manager himself rather than through his subordinates. Great changes should be announced at the general sales convention, if one is held. Minor changes may be made public at district conferences, or perhaps the district or branch managers may be summoned together for this purpose, and then intrusted with informing their own men.

**Direction by Correspondence.**—Mention has already been made of the use of correspondence for training purposes. It serves an equally important function in direction. Salesmen are often out of touch with the home office except by mail or



telegraph, and it is essential that they be kept informed of what they are to do.

Scientific marketing does not allow the individual salesman to do everything as he thinks best. Such a policy results in waste and duplication of effort. Scientific marketing relies on intelligent direction. If the salesman is of such a caliber that he does not require direction, he should be given a position as an executive.

It does not matter greatly how direction is exercised, whether by telephone, telegraph, or mail, provided it is effective. If the salesman is to be most efficient, he must be kept informed of everything relating to his job. This information may be in regard to market conditions, to activities of competitors, to the status of customers, or to conditions in a particular community. The Sales Manager will normally procure this information from the Research Department, either as a matter of course or on specific requisition. Certain information of a routine character may be embodied in bulletins or perhaps in the house organ. Statistics as to business prosperity will interest all members of the force. But information as to the credit standing of a particular customer should be sent in a personal letter.

The most important information, of course, is in regard to direct market possibilities. As an example of what may be done in supplying specific market information, the Mason Tire & Rubber Company of Kent, Ohio, sends a monthly report to each salesman, branch manager, and district manager. On this is listed each town in the territory, with its car registrations, and opposite are recorded the net sales in that town from the first of the year to date. Then the business done is divided according to size of tire, or style, and the individual salesman is thus shown whether he is getting his share of all the business.

**Control.**—For effective control, it is essential to have a system of reports by salesmen. Some of the best salesmen find it extremely trying to stop and make out adequate reports. Yet it is so important that the information of the company be kept complete and up-to-date that absolute insistence should be made upon a regular report routine. A report form should be made up which will reduce the salesman's work to a minimum. He should not be called upon to furnish any information which is not



directly utilizable by the company, nor should he be asked to do the work which the Research Department should perform.

**ALWAYS CHECK ADDRESS AND BUYER'S NAME, AND IF CHANGED WRITE NEW ADDRESS OR NAME UNDER REMARKS**

DATE OF CALL					
BUYER OUT					
NOT A PROSPECT					
NOT IN THE MARKET					
SEE NEXT TRIP					
BUYING THRU DEALER					
OUT OF BUSINESS					
CONFIRM QUOTATIONS BY LETTER					
WILL BE IN THE MARKET					
DO YOU SUGGEST MAILAID?					
REMARKS:					

**SALESMAN'S REPORT**

PRINTED IN U.S.A.

FIRM NAME		TOWN	TRADE NO.	
BUSINESS		STREET	ROUTE NO.	
BUYER		HOW MANY TIMES PER YEAR SHOULD THIS FIRM BE CANVASED?		

**USE SPACES BELOW FOR RECORD OF ITEMS USED, WHO SOLD LAST ORDER, PRICES QUOTED AND RESULTS**

DESCRIPTION OF ITEM	LAST ORDER	PRICES QUOTED				RESULT	
		QUANTITY	M	M	M	CHECK QUOTED	DATE
	PRICE @					SOLD	
	GIVEN TO	EST. NO.				PENDING	
<b>IF LOST WHO RECEIVED THIS ORDER?</b>		<b>WHY?</b>		<b>QUANTITY</b>		<b>LOST</b>	
HOW DOES QUALITY OF COMPETITIVE ITEM COMPARE WITH OURS?		PRICE		ACTUAL APPROXIMATE		FOLLOW UP	

DESCRIPTION OF ITEM	LAST ORDER	PRICES QUOTED				RESULT	
		QUANTITY	M	M	M	CHECK QUOTED	DATE
	PRICE @					SOLD	
	GIVEN TO	EST. NO.				PENDING	
<b>IF LOST WHO RECEIVED THIS ORDER?</b>		<b>WHY?</b>		<b>QUANTITY</b>		<b>LOST</b>	
HOW DOES QUALITY OF COMPETITIVE ITEM COMPARE WITH OURS?		PRICE		ACTUAL APPROXIMATE		FOLLOW UP	

DESCRIPTION OF ITEM	LAST ORDER	PRICES QUOTED				RESULT	
		QUANTITY	M	M	M	CHECK QUOTED	DATE
	PRICE @					SOLD	
	GIVEN TO	EST. NO.				PENDING	
<b>IF LOST WHO RECEIVED THIS ORDER?</b>		<b>WHY?</b>		<b>QUANTITY</b>		<b>LOST</b>	
HOW DOES QUALITY OF COMPETITIVE ITEM COMPARE WITH OURS?		PRICE		ACTUAL APPROXIMATE		FOLLOW UP	

FIGURE 46. FORM OF SALESMAN'S REPORT USED BY DENNISON MANUFACTURING COMPANY

These report slips, when properly filled out, are analyzed carefully at the home office. Lost orders are carefully entered; pending orders are filed for reference in the future.

The purpose of the salesman's report is twofold. In the first place, it furnishes the company a great deal of valuable information. In the second place, it has a good effect upon the

salesman making the report. It crystallizes and orders his ideas. He is often able to get a better understanding of the problem after reducing his thoughts to written form.

Under any scientifically planned marketing system, the salesman's reports will ordinarily have to be made out in triplicate, at least. One copy will be kept by the salesman himself, a second will go to the Sales Manager as a control record, and a third copy to the Market Research Department for the purpose of sales analysis. This latter department can get much information in this way which, although not unqualified or final, will serve as a check and guide for the work of its own field force.

Fig. 46 shows the form of salesman's report used by the Denison Manufacturing Company. This is an excellent example of how such a report may be made to serve as the basis of the office records. This report is intended to be forwarded daily, with orders attached, to the office. If a lost order is reported, the information is entered on the office and on the salesman's record cards, as well as on a monthly report of unsold items.

**Incentives.**—It is the function of the Sales Department to carry into effect the various types of incentives devised by the Planning and Training Departments. By having these incentives prepared by experts, and by having them formulated with respect to market demand, the company will be able to maintain a high morale and at the same time give the greatest satisfaction to the ultimate consumer. The Sales Manager carries these plans and policies into effect for the reason that he is the one to come in contact with the sales force.

Promotion, as previously stated, will be on merit alone. While the recommendation of the Sales Manager will count heavily, the final action will be taken on the basis of the salesman's record.

Transfer will also be largely on the recommendation of the Training Department. Methods of remuneration will be worked out by the Training Department which will be responsible for their effectiveness in operation.

Contests of various kinds will be planned by the Planning or Training Departments, while the actual carrying on of the contest will be under the Sales Manager. He will submit records of results for the files of the Training Department, to be entered upon salesman's record cards, while results of the contest will also



go to the Planning Department, to indicate how successful its scheme was in operation.

Conferences and conventions will be conducted by the Sales Manager according to the program worked out by the Training Department.

The Sales Manager is thus shorn of many of his former routine duties. This may arouse much dissatisfaction when the system is first installed. The Sales Manager still will have certain inspirational duties to perform. By his own example and force of personality he will lead his force. Secondly, he will have to use letters and bulletins when the sales force is out of direct contact with the home office. Thirdly, he will have to inspire in his assistants the same enthusiasm which he himself possesses.

**Coordination.**—The Sales Department is dependent entirely upon other departments for its policies since, as stated before, it has no staff functions to perform. Consequently, the work of coordination is extremely important. There must be regular committee meetings at stated intervals for the purpose of comparing standards and performance in detail. In addition, there must be special meetings when any specific subject requires attention. The Marketing Manager should be present as usual, since he is the ultimate coordinating influence in the Division.

Relations with the Training Department must be particularly close. The Sales Manager must inform the Director of Training immediately of any gaps in salesman's knowledge, or of any specific individuals who need attention.

The Planning Department, as described in Chapter XI, has made up quotas, routes, and territories for the Sales Manager who, in turn, puts these into practice. If he, from his closer contact with the field, thinks these should be changed, he must make a recommendation to that effect to the Planning Department, giving facts and reasons for his opinion. The Planning Department will then take them into consideration, verify them, and report to the Marketing Manager that a change is or is not desirable.

To avoid friction, it is imperative that all orders come through headquarters. The Planning Department must maintain its advisory character at all times.

The relations between the Sales and Advertising Departments will be taken up in the following chapter.



**Advance Preparation.**—A great deal has been done in recent years in the way of preparing the ground for the salesman and of making sales resistance less, so that when he calls the prospect will know something about him and about what he has to sell. There are two possible ways to do this. In the case of consumers, it is possible to use publication advertising or direct mail. In the case of dealers and jobbers it is usual to employ direct mail, and sometimes trade-paper advertising.

A fine example of how advertising has introduced the salesman to the consumer is that of the Fuller Brush Company, of Hartford, Conn., which has largely succeeded in breaking down the aversion of the housewife to its house-to-house selling by careful advance preparation. When the salesman says he represents the Fuller Brush Company the prospect immediately knows what he is there for.

If it is possible to let prospects know in advance of the salesman's call what the proposition is, naturally the task of the salesman will be easier. This plan is particularly useful when high-powered selling methods are not employed. The salesman does not rely on his personality so much as he does on facts.

The magazine intended to be sent to distributors is often used to pave the way for the salesman by telling of some new product, or some model, or giving hints as to new selling methods.

Many companies send notices to customers saying just when the salesman will call. A great many of these notices are sent in the name of the salesman, thus tying him up personally with his market.

**Inquiries and Follow-ups.**—Provision must be made in the Sales Department for the handling of inquiries, and there must also be some system of taking care of follow-ups. Such functions are on the border line between the selling and the advertising function. When the majority of inquiries originate from advertising, these must be turned over at once to the Sales Department, and they must then be followed up without delay. Frequently, under present conditions, no adequate provision is made for taking care of them. The Advertising Department is satisfied if it has obtained them, while the Sales Department often regards them as a nuisance.

Inquiries should be taken care of by a special section of the Sales Department, if there are enough of them to warrant this.

Otherwise, some one individual will be designated to take care of them who is skilled in this type of work. A careful system of follow-ups should be worked out by the Planning Department and this system will then be installed for operation in the office of the Sales Department.

There will be certain companies which prefer to turn over all inquiries to distributors. If nothing further than this is done,

5-24

TOWN

STATE

POPULATION

CHIEF INDUSTRY

MONTH	YEAR 19.....								YEAR 19							
	DEALERS		JEWELERS		CONSUMERS		TOTAL		DEALERS		JEWELERS		CONSUMERS		TOTAL	
	Route		Route		Route				Route		Route		Route			
	Personal	Mail	Personal	Mail	Personal	Mail	Personal	Mail	Personal	Mail	Personal	Mail	Personal	Mail	Personal	Mail
January																
February																
March																
April																
May																
June																
July																
August																
September																
October																
November																
December																
TOTAL																
Total P & M																
Times Visited																
No. Firms Listed																
No. Firms Sold																

Printed in U. S. A.

Printed in U. S. A.

FIGURE 47. TOWN SALES RECORD OF THE DENNISON MANUFACTURING COMPANY

This record is kept for each town covered by a salesman. Upon it is entered the name of the town and state, population, chief industry, amount of sales by months and years for dealers, jewelers, and consumers, both personal and mail. There is also provision for entering "Times Visited," "Number of Firms Listed," and "Number of Firms Sold."

it is safe to assume that the results will be unsatisfactory and that all the expense to which the seller has gone in securing these inquiries will be largely wasted. Therefore, if it is worth while to secure inquiries or direct orders, these must be handled to the consumers' satisfaction. Some companies follow up the dealer to see that he has taken care of the inquiry. Policies will differ in accordance with the influence which the company has over its distributors.

**Sales Records.**—The type of sales record used will determine in great measure the value of the results secured from

analyses by the Research Department. These forms, as made up by the Planning Department, and as scrupulously maintained by the Sales Department, must give all information which is of value.

Fig. 47 shows the town sales record of the Dennison Manufacturing Company, which is kept for each town covered by salesmen. This record is kept up by a record clerk, all permanent information and card headings being typewritten, while sales figures are entered in pen and ink. These town cards are filed in front of office copies of Customers' Record Cards for each town and city.



## CHAPTER XIV

### ADVERTISING

SINCE advertising is recognized as a specialized function of scientific marketing, it will be necessary in most cases to have an Advertising Department. The term *advertising* is taken to include not only advertising in periodicals, but also direct mail, the preparation of dealer helps, of catalogues, of package designs, of novelties and specialties, and in short everything which pertains to publicity.

Like selling, advertising is a line function. While, in its essence, it is merely a form of selling, or an adjunct thereto, it becomes a special department because of its individual technique, which requires training and experience of a highly special character. It does, however, put into effect the plans laid down in a general way by the Marketing Planning Department and approved by the Marketing Manager. Advertising may no longer be conducted as an esoteric and eclectic activity.

Fig. 48 shows the functional division of advertising into coordination, research, production, and control. Coordination includes not only the marketing campaign as a whole, but also the sales force and the merchandising activities of distributors. Research is concerned with the specialized problems of advertising which cannot well form a part of the regular Market Research Department. Production, including choice of appeals, copy preparation, media selection, and space-buying, may be performed by the department or by an agency acting in its stead. Control acts to eliminate wastes in advertising by checking standards with results.

**Organizing the Advertising Department.**—The advertising problem differs to such an extent in different companies that it is impossible to generalize to advantage about the organization of this department. In changing to a regimen of functionalized marketing, this department will usually have to undergo fewer

radical alterations than any other constituent of the Marketing Division.

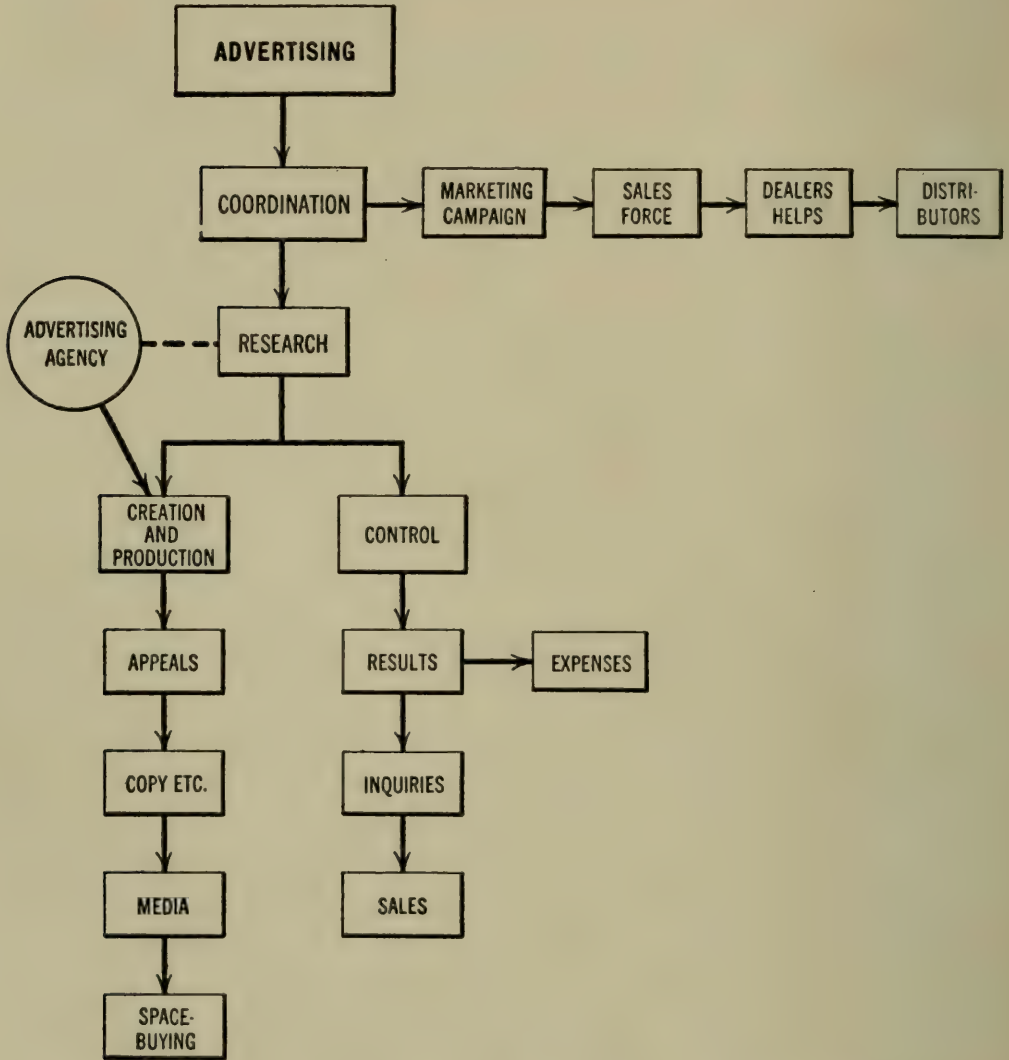


FIGURE 48. FUNCTIONAL ORGANIZATION OF ADVERTISING

The functions of the Advertising Department remain virtually unchanged, under a system of scientific marketing. There is, however, an attempt to make a clearer-cut division of duties, a closer coordination with the activities of other departments, and a more accurate control of costs and results.

If the company is large, it might naturally divide its advertising activities as follows (see Fig. 49) :

1. *Research.* Advertising presents many peculiar problems of research which cannot ordinarily be handled to advantage in the regular Market Research Department, such as duplication of

media, best methods of coverage, tests of advertisements, and the like.

2. *Copy.* The Copy Section, together with the Art Section, will, as usual, take care of the physical preparation of advertisements for publications, for direct-mail purposes, and for catalogues, dealer helps, and the like. If an agency is employed, it will, of course, perform the majority of these duties.

3. *Space-Buying.* This is normally done by the agency, but by employing its own space buyer, the company will be in a

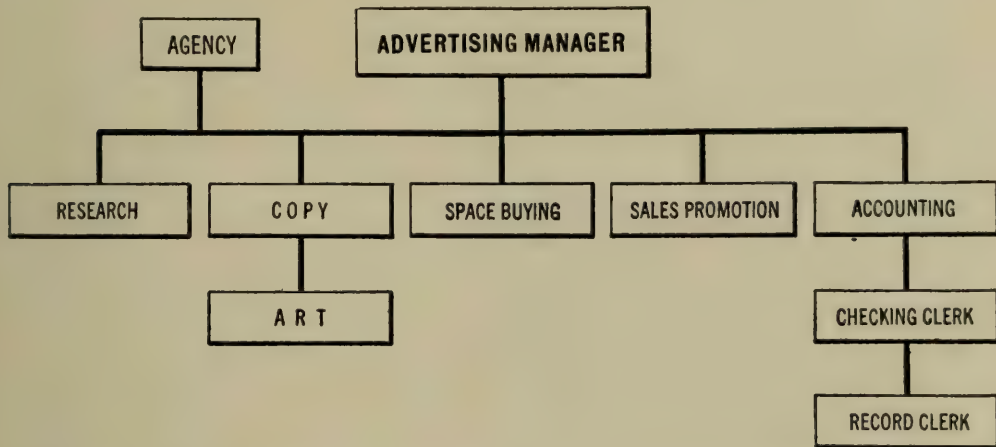


FIGURE 49. ORGANIZATION OF TYPICAL ADVERTISING DEPARTMENT

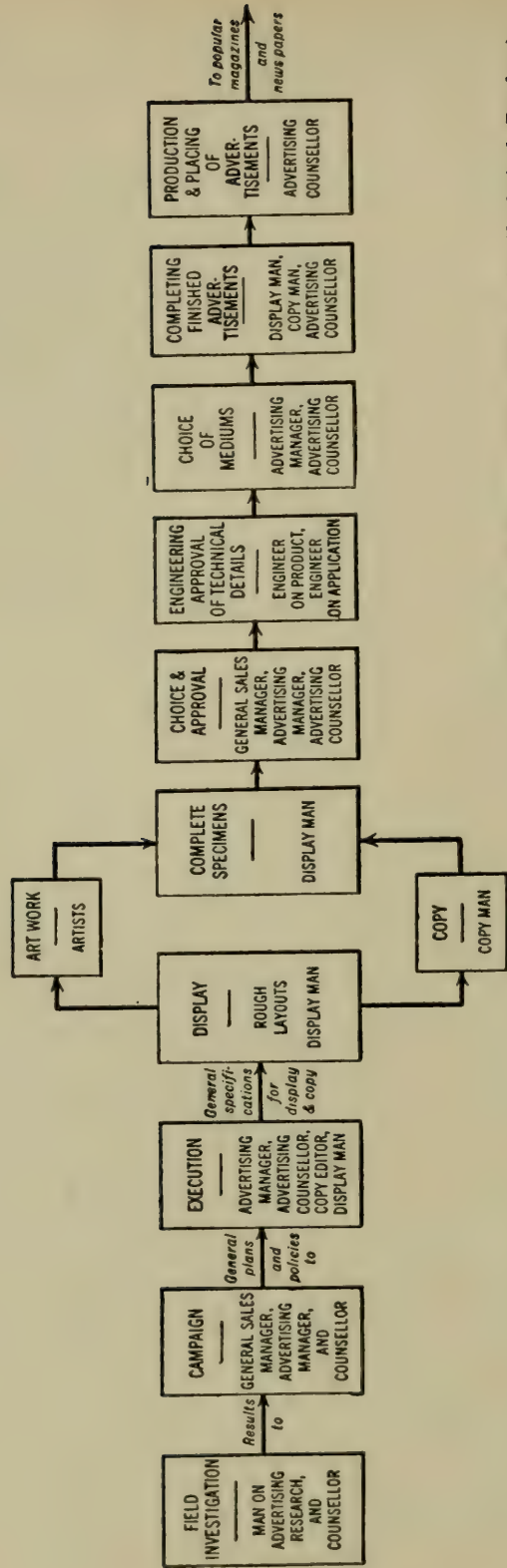
Under a functionalized scheme of marketing, the advertising department forms one of the main constituents in the Marketing Division. It is under an Advertising Manager, who may be assisted in technical problems by an Advertising Agency. Scientific Marketing lays stress upon the matter of records and the calculation of advertising costs in proportion to results obtained.

position to resist the arguments in favor of paying the highest rather than the lowest price for blank space.

4. *Sales promotion.* This would include the preparation of direct mail literature, attending to inquiries, performing the work of coordination with other departments as regards inquiries. Sales promotion, may, of course, form a separate department in some companies. See the chapter on Departmentization of the Secondary Marketing Functions for a discussion of Sales Promotion.

5. *Accounting.* This includes the employment of a checking clerk and also the keeping up of charts and records showing what each campaign has cost and what it has brought into the company





(Sloan and Mooney—Advertising the Technical Product)

FIGURE 50

In the case of advertising in the popular magazines and newspapers, this chart shows the flow of ideas through the various steps in their crystallization into advertisements.

in the way of returns. The technical functions of the old Advertising Department are shown in Fig. 50. Companies with special products, such as technical products, will have to provide somewhat differently for advertising. (See Fig. 51.)

**The Advertising Agency.**—Under a system of scientific marketing, organized with the avowed intention of reducing selling costs, the first advertising problem has to do with advisa-

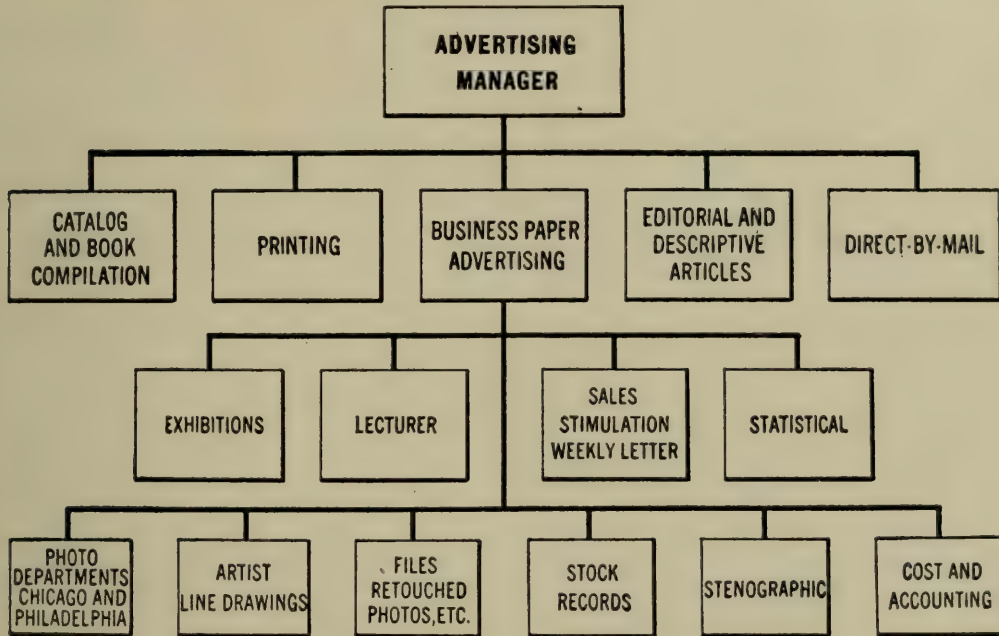


FIGURE 51. SCHEME OF ORGANIZATION FOR LINK-BELT ADVERTISING DEPARTMENT

In the case of technical products, where periodical advertising often plays a secondary part, it is often necessary to set up a somewhat different form of organization from that usually employed. In the department shown above, various special forms of advertising are provided for.

bility of using the services of an advertising agency, the second what duties the agency can perform economically, and the third how contact should be established with the agency.

Fig. 52 presents a list of questions used by a certain company in deciding which agency to choose. The advertising agency should act primarily as a specialist in advertising technique. There has been, it is true, a tendency for the agency to take over an undue share of the merchandising activities of the company. The agency has been forced to do this because the company itself would not or could not perform the necessary research or

1. What is the age of your agency?
2. What has been the selling and advertising experience of the executive and important members of your organization?
3. How many people employed?
4. How are their duties divided, viz., executive, productive, artists, clerical, outside?
5. How many assigned to our account and what are their especial qualifications?
6. Would our contact be through one man or several covering various phases?
7. Is the contact man on a salary basis or commission?
8. Is contact man a salesman or an active copywriter or merchandiser?
9. Would contact man be capable of assisting or advising in preparation of technical information pamphlets?
10. Would contact man handle accounts other than ours? If so, how many and who are they?
11. Is contact man experienced in (a) radio technically; (b) radio commercially; (c) manufacturer to jobber and dealer policy; (d) radio publication field?
12. How many accounts have you? List names and length of service.
13. How many are active and exclusive?
14. How many accounts added during past year?
15. How many accounts lost during past year? Give names.
16. Do you handle any account that would compete with ours? If so, give name.
17. Do you or would you handle competing accounts in any line?
18. Have you any objection to our getting in touch with present or past clients?
19. What is value of each account you handle? This may be listed individually or in groups.
20. What is total business handled per year during past five years?
21. Has your agency shown a consistent yearly profit?
22. Why do you consider your agency qualified to help us?
23. Have you anyone in your organization who can qualify for the following and if so, who? (a) radio fan; (b) engineer-radio or otherwise; (c) practical workman; (d) salesman; (e) merchandiser?
24. What experience has your agency had in the radio field?
25. How do you propose to handle the technical features of our account?
26. Do you have your own artists, or is all art work jobbed?
27. What does your service include in addition to the preparation of copy for commissioned space?
28. On what basis of compensation is this service rendered?
29. What is your policy on the placing of printing and other mechanical work for broadsides, pamphlets, etc?
30. Do you prefer that we or you actually place the orders for such printing?
31. Do you aim to be a factor in determining and conducting our merchandising policies?
32. What would be your plan for helping us with these policies?
33. How far ahead do you normally plan advertising campaigns?
34. Would this be any different for our business?
35. Are you familiar with the seasonal nature of the radio business and the shortness of the selling season?
36. What effect would this have on your advertising preparations?
37. Are you familiar with our form of distribution—manufacturer to jobber?
38. Do you favor any modification of this plan for our present lines?
39. Would you favor a modification if we decided to add a high-priced line of sets?
40. If so, what change would you recommend?
41. Do you make personal field investigations for anticipated sales and advertising campaigns?
42. Do you consider them practical in the radio field?
43. Do you favor trial campaigns in certain localities or mediums?
44. Do you favor them for the radio business?
45. What do you consider as the important factor on which to base an advertising appropriation? (Check this against): (a) last year's business; (b) last year's net profit; (c) anticipated business; (d) intensity of campaign; (e) requirements to cover field; (f) general business conditions; (g) conditions in radio field; (h) our position in radio field; (i) production possibilities; (j) experience of others.
46. Do you favor a yearly gross appropriation to be spent at the discretion of the agency or would you recommend a monthly control of such expenditures?
47. Based on anticipated yearly sales of \$1,500,000 what would you recommend as an advertising appropriation covering all expenses?
48. How would you allocate this appropriation for (a) newspaper space? (b) trade magazine space? (c) general magazine space? (d) direct mail? (e) dealer helps? (f) salaries and miscellaneous?
49. In what relation to each other do you hold production, advertising and distribution and how do you regulate the tie-up?
50. Submit a complete file of one year's campaign matter for one of your accounts, preferably of a technical nature. This should include all forms of advertising and merchandising matter.

FIG. 52. QUESTIONS USED AS THE BASIS OF SELECTING AN ADVERTISING AGENCY

Scientific marketing regards the advertising agency as a specialist in advertising technique. Research, planning, and the direction of the marketing campaign are retained by the Marketing Division of the specific company. While the advertising agency may give advice, it should be expected to help develop the company's campaign, rather than to initiate the campaign.—*Printers' Ink*, May 27, 1926.



do the requisite planning. Under scientific marketing, the agency's functions are restricted to their proper sphere, *i.e.*, the preparation and placement of advertising.

The agency normally takes care of publication advertising, although some agencies are equipped to do direct-mail advertising,

ADVERTISING		
<i>Type</i>	<i>Supervised by</i>	<i>Placed by</i>
Walls and bulletins	Regional outdoor advertising managers	Placed direct with general outdoor advertising or with local commercial painter
Posters	Home office and agency	Agency
Dealer helps	Home office	Salesman, in dealer's place of business—no material mailed to any dealer.
Publications	Home office and agency	Agency
Tacker signs	Home office	Salesmen and bottlers
Novelties	Home office	Used by bottlers

FIG. 53. METHOD USED BY COCA-COLA COMPANY TO HANDLE ITS ADVERTISING

A company like this one, with national distribution and extensive sales to consumers, should have a well developed advertising department. Many of the functions above listed cannot be delegated to an advertising agency.

prepare catalogues, and the like. Fig. 53 shows how the advertising of the Coca-Cola Company is handled, according to the report of W. S. Kell, Assistant Sales Manager. The Advertising Department of the company should carefully prepare the advertising program and go over the agency's estimates and

recommendations, particularly those relating to the purchase of space. No advertising, in spite of agency recommendations, should be continued unless it pays for itself. Payment, of course, may not be immediate, but there is much advertising done to-day which is to be condemned on the ground that it is purely competitive and adds merely an extra cost to the consumer.<sup>1</sup>

Coordination of the agency with the Advertising Department is usually done through what is known as the agency's "contact man." In any case, a system of coordination must be provided for, as through series of conferences between the Advertising Manager and the agency staff.

**The Director of Advertising.**—The position of Advertising Manager in a company professing scientific marketing requires coordinating ability, technical knowledge, and acquaintance with marketing practice.

The old type of advertising manager is not likely to fit into the new organization. He was concerned too much with the advertising itself and not enough with what the advertising accomplished for the company. (Only in the department stores and mail-order houses has advertising been more consistently coordinate with sales.) He was, furthermore, without adequate conception of objectivity of demand; his idea was that it was by advertising alone that goods were sold.

Even when an advertising agency is employed, the advertising manager should be able to coordinate the company's problems with the services of the agency. He must know his trade. Instead of being the agency's pawn, he must be able to stand up in conference with its representatives and hold his own. He is the company's advertising expert. He merely delegates part of his duties to the agency, and he, in theory and effect, must remain in charge of the methods of carrying them out.

A broad understanding of marketing is required of him if he is to make advertising a valuable ally of the new system. He is a member of the permanent committee of department heads. He must be able to suggest to it methods of coordinating

<sup>1</sup> For a more complete discussion of advertising, the incidence of advertising costs, the position of the agency and the publication and their relations to the advertiser, and an analysis of the competitive aspects of advertising, see the author's *Advertising Research*, published by D. Appleton & Company, 1927. See also Hotchkiss and Franken, *The Measurement of Advertising Effects*, Harper & Brothers, 1927.



advertising with other merchandising activities so that all will work most effectively towards the ultimate goal of satisfying the consumer.

While he will not control the size of the advertising appropriation, it will be one of his duties to prepare a budget of expenditures and expected results which will serve as a basis for the Planning Department's discussions.

**Advertising as a Marketing Force.**—Advertising as yet has attained no more scientific basis than marketing itself. The result is that there is tremendous waste in advertising. Many firms advertise nationally which have no justification in fact for such a procedure; many firms advertise through media which are not fitted to carry their message; many firms utilize advertising as the keenest-edged weapon in an armory filled only with the paraphernalia of supersalesmanship.

Advertising is not an end in itself. Its use is justified only if it fulfils the conditions and accords with the principles of marketing already enunciated. It is difficult to see where purely competitive advertising confers any benefit upon the consumer—though there is room for argument on this point.

By competitive advertising is meant advertising the purpose of which is to obtain the advantage over rival concerns, regardless of consequences, rather than primarily to be of value to the consumer. The cant term for that type of commercial rivalry growing out of the least defensible form of advertising is *cut-throat competition*.

Advertising merely to induce consumer acceptance of a particular brand of a standard product is, according to the scientific marketing point of view, a doubtful expense. Mr. Ford has received a storm of criticism from the advertising profession for his refusal to continue advertising, yet it is doubtful whether even from a supersalesmanship point of view his temporary advertising policy ever paid him what it cost.

To attempt to draw the line between good advertising and bad advertising requires an analysis of the economics of the situation which would be out of place here. Most people, however, can tell the difference between advertising which is constructive and that which is destructive, and this distinction is satisfactory for the present need.



**Forms and Purposes of Advertising.**—Worth-while advertising may be classed as informative, institutional, and co-operative. To give information was the original use of advertising, and still remains its most important purpose. Advertising should tell where and how the product may be obtained. The informative function has been extended, however. Advertising serves an educational purpose in the case of a new product which has never before been offered to the market. It was used to introduce the automobile, the washing machine, the electric refrigerator, and the radio. All these products, however, are now well known to and accepted by the public, and the use of advertising in connection with them is largely to secure acceptance by the consumer for some particular brand. If the principle of objectivity of demand is accepted, then any advertising which does not aim primarily at the satisfaction of the consumer (but, rather, at obtaining an ascendancy over competitors) is indefensible. On the other hand, all advertising is to some extent competitive, and is bound to remain so, as long as this country uses "free competition" as its business credo.

What happens when the consumer is kept in mind is shown by the experience of the Champion Spark Plug Company. This company, one of the first advertisers in the field, has always stressed the long life of its products. With the development of high-speed engines, it became apparent that spark plugs deteriorated more rapidly. The company, therefore, inaugurated an advertising policy of showing what happens to a spark plug in service and advocating renewal of spark plugs at least once a year. By admitting that its product was not everlasting, and by showing the consumer how he could obtain better result by changing plugs occasionally, the company built up a large renewal business. By making a concession in its advertising, and by keeping in mind the needs of the consumer, the company increased its own sales without merely drawing them from competitors.

Institutional advertising, it is true, does not reflect itself measurably in sales returns, but has a place, nevertheless. In industries where products are standardized, the only basis for choice which the consumer has is the service rendered by the seller. The seller has a right to set forth in advertising copy his qualifications to serve the consumer.

Cooperative advertising has already made a place for itself.

It should reduce advertising costs in those fields which are susceptible to such a plan. An excellent discussion of this subject is to be found in Agnew's *Cooperative Advertising by Competitors*.

**The Advertising Appropriation.**—A well-known writer in business periodicals states<sup>1</sup> that "all methods of determining the advertising appropriation must be predicated on sales volume, either expected in the future or actually gained in the past." He goes on to enumerate the methods actually used, such as the percentage of sales or profits method, the "task" method, watching competitors, and other plans. Under scientific marketing, the appropriation is looked at merely as one of the marketing standards, and is determined much the same as any other standard. The Planning Department, in formulating the campaign, assigns to advertising a certain part which it must play. The plan is submitted to the Advertising Manager, who prepares estimates of costs, either with or without the cooperation of the agency, and then returns these estimates to the Planning Department.

The "task" method of building appropriations is rapidly becoming popular. Companies are beginning to see the fallacy of such methods as assigning so much money per unit of product for advertising, or saying "we shall spend 3 per cent of our gross sales for advertising." A knowledge of the market inevitably leads to an understanding of how to reach it most effectively.

Since scientific marketing presupposes measurement, it is essential to budget the advertising appropriation, preferably on a monthly basis. A certain return must be demanded for every expenditure, even though the expenditure is for such an intangible thing as good will. It is the function of the Advertising Manager to make sure that the funds which are intrusted to him bring the results planned for.

**Coordinating Advertising and Sales.**—Advertising and selling are both directed to the same end, although the methods employed for each differ. Consequently it is desirable that the two departments remain in close touch with each other. The Advertising and Sales Managers should, in fact, have daily conferences as to progress in addition to the weekly attendance at regular committee meetings. A plan whereby coordination is fostered is shown in Fig. 54.

<sup>1</sup> C. B. Larrabee in *Printers' Ink Monthly*, June, 1926.

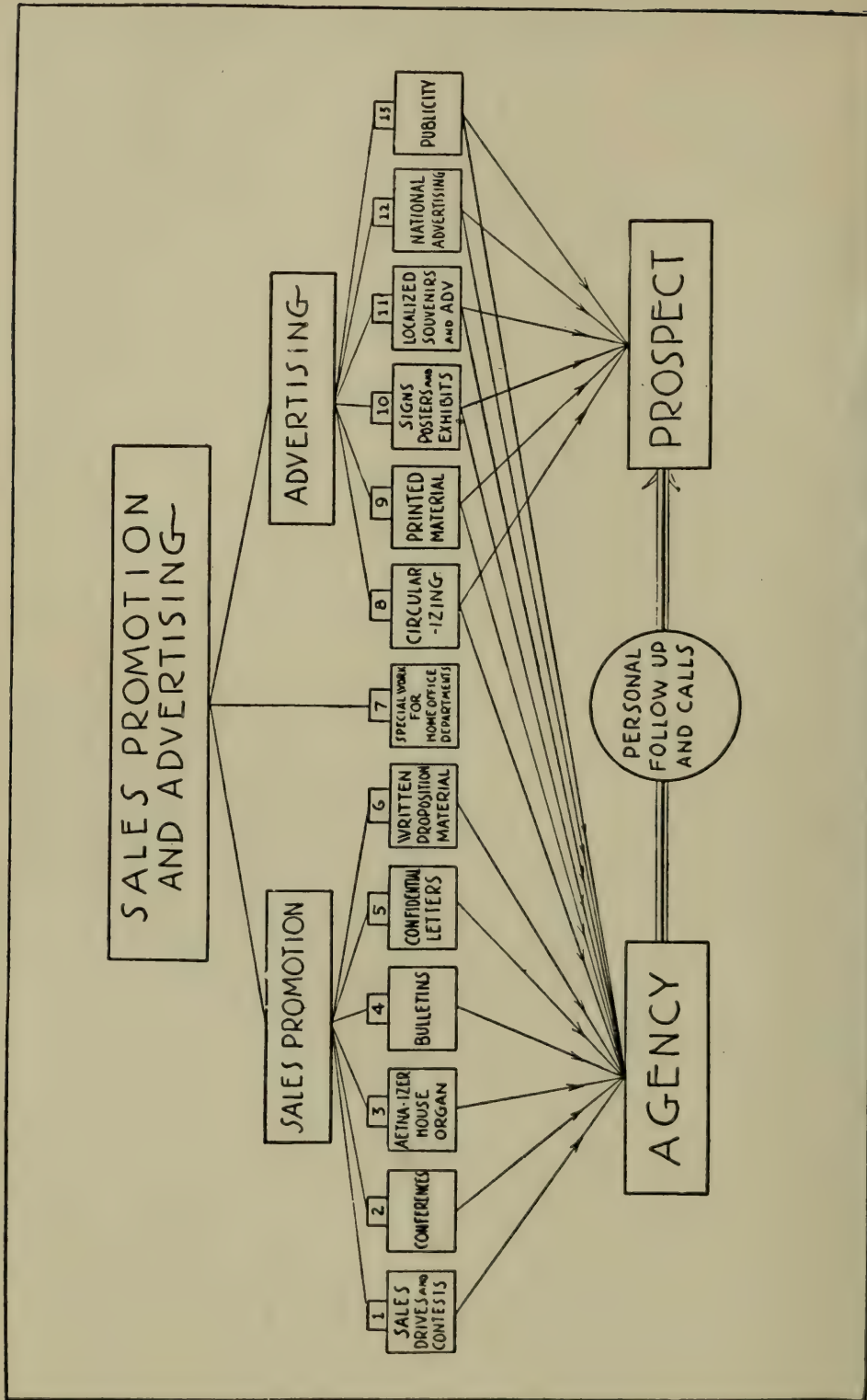


FIGURE 54. COORDINATION OF SELLING AND ADVERTISING

As functionalization increases, coordination becomes more and more essential, and the line of demarcation between functions becomes harder to draw. This chart shows the idea of coordination as applied to an insurance agency.



The advertising schedule should be known to all, especially the salesmen. It is customary, of course, to use the advertising campaign as a part of the selling talk, but this has not always proved effective in the past. Many salesmen do not understand the value of advertising. To them it is a strange alien function primarily designed to make it harder for them to sell because it makes the sales which they would normally make themselves. This is particularly observable where direct advertising is concerned.

Where the salesmen have become convinced of the value of advertising, they should be shown how to use the advertising schedule as a regular part of their sales equipment. E. I. Du Pont de Nemours & Company use five methods of making the sales force acquainted with its advertising program, namely, by presentation at sales conventions, at group meetings, by follow-up bulletin or letter from the District Manager, by personal work in the field with individual salesmen, and by presentation of selected features of the program by mail. These methods may be adopted in a scientific marketing system. It is preferable, however, to have the Training Department give preliminary instructions in the value and use of advertising, and perhaps outline the best methods of keeping salesmen informed of the progress of the advertising campaign.

**Advertising and Distributors.**—Advertising must not only be coordinated with the other merchandising activities of the company; it must also be prepared with reference to the needs of distributors. Those companies, of course, which sell direct to the consumer do not have this problem to meet, but their number is few in comparison with those selling through jobbers, retailers, or other middlemen.

Publication advertising, for example, must be coordinated for best effect with the local advertising of distributors. The Advertising Department must go to the Service Department and to other sources for the information upon which coordinated efforts can be based.

There is great ignorance often found among distributors as to what the seller's advertising aims to accomplish. Just as in the case of the sales force, it is essential to explain carefully the objectives and policies of the company.

In regard to dealer helps, the Advertising Department prepares

them; but does not attend to their distribution. To secure the most effective “helps,” therefore, the Advertising Department must hold conferences with the various other departments so that there will be no mistake as to the correct appeal and treatment. Advertising otherwise tends to become mere abstract publicity without reference to the objectives to be followed.

Such duties as preparation of mailing lists for distributors would normally form part of the functions of the Service Department. There are certain border-line activities, in any case,

Year		Name and Address of Publication				When Published		Form Close		Classification							
Type Page		Column Width	Card Rate Per Insertion	In Circ		Agent's Commission	Sest Copy		Circ. Claimed								
Width	Depth			Agency	Cash		Total Space for Yr.	Requisition									
Date Each Insertion	Subject	Space	Copy Sent	Insertion Checked		Net Cost per Insertion	Bill Passed		Date Each Insertion	Subject	Space	Copy Sent	Insertion Checked		Net Cost per Insertion	Date	By
				Date	By		Date	By					Date	By			
JAN.									JULY								
FEB.									AUG.								
MAR.									SEP.								
APR.									OCT.								
MAY.									NOV.								
JUNE.									DEC.								

FIGURE 55. FORM FOR COMPUTING COST OF ADVERTISEMENT, USED BY DENNISON MANUFACTURING COMPANY

It is essential to provide suitable forms for keeping track of advertising expenditures. Only in this way can advertising be conducted on a profitable basis.

which must be assigned to one department or another as conditions warrant.

**Results.**—In no other marketing activity is it so difficult to compute the monetary value of results as in advertising. The first point, therefore, is to place a certain value on the results aimed for, and measure the advertising by this standard. Each advertisement or piece of direct selling literature should have its own record card. Fig. 55 shows such a form which is particularly complete in its provision for all requisite information on which to base the cost of the advertising.

If advertising is used to obtain inquiries, the system must provide some method of handling them. If samples are offered, these must be sent immediately upon receipt of the request. If booklets or literature are asked for, these should be dispatched at once.

It is important to note in this connection that the Advertising Department is responsible for the use made of sampling through advertising. Under some conditions this is a wasteful and inefficient procedure; under others it is a business-building policy.



## CHAPTER XV

### SERVICE

THE Service Department, which is to some extent the outgrowth of placing in the hands of the public manufactured products which call for an understanding of engineering principles, is to be credited with the transition, slowly but surely being effected, from the basis of *caveat emptor* to a higher-principled relationship with customers. The guiding function of the Service Department is the physical embodiment of the principle that the public must be given a fair deal, that it must be satisfied.

The term "service" is an exceedingly elastic one, and must necessarily remain so, due to the great differentiation between the service problems of individual companies. It is rigidly restricted, however, by the true needs of the consumer. Services in department stores, for example, have tended to become competitive, in which case the consumer does not always derive a satisfaction commensurate with the added cost to him of the products sold under these conditions. Thus a service, to be of real value to the consumer, must not raise the price out of proportion to the added satisfaction which he will enjoy.

**Principles of Service.**—The service problem, even under functionalized marketing, is so varied that it is difficult to formulate definite principles applicable to all cases. The following five points, however, are almost universally utilizable:

1. *Forestalling of complaints.* No matter how quickly a complaint is attended to, it is likely to cause some dissatisfaction. The best method of giving satisfactory treatment is to forestall complaints, either by servicing the product while in use, or to make periodic market analyses to gauge the degree of consumer satisfaction with the product.

2. *Courteous treatment.* When complaints arise, as they inevitably will, no matter how much attention is paid to forestalling them, courteous treatment must be given. If the demand for

service seems unfair, it is essential to make the consumer see the company's point of view. In many cases it is desirable to "lean over backwards" in satisfying the consumer's demands, because of the favorable publicity attained by this policy.

3. *Performance as promised.* Service must never lag behind what the company has promised. If salesmen or advertisements stress service, then the Service Department must live up to the standard set.

4. *Fair price.* The consumer is likely to regard charges made for service or for spare parts or for repairs with a somewhat critical eye. It may be desirable for the company to make definite and exact statements of costs, so that the consumer may see that he is not paying too high a price for what he receives.

5. *An efficient method.* Service may best be carried out as a separate function, according to a routine method. If service stations are required, they must be located at convenient points.

**Service Functions.**—All service is aimed at the ultimate consumer's satisfaction; but to achieve this it is often necessary to work through the distributor. Thus service functions are divided broadly into service to distributors and service to consumers, although the objective in both cases is identical.

Better consumer satisfaction can be obtained by teaching the distributor the rudiments of scientific marketing and helping him to put them into practice. Thus if a manufacturer operates on scientific marketing principles, his progress will be impeded if the links in the distributive chain do not also keep step. Some companies may accordingly find it necessary to seek new distributive channels, but in certain lines it will be found that retail merchants are more alive to the need for service to consumers than are the manufacturers themselves. Here again other elements are involved, such as private brands. In general, however, the larger retailers realize that service must go with the goods sold and are ready and willing to cooperate with the manufacturer in this respect.

Fig. 56 shows the major service functions which must be performed by practically every company, no matter what type of product is marketed or how the servicing is handled. The importance to the consumer of product servicing varies, of course, with the nature of the product. The radio or piano will take a great deal of servicing, while a food product will require servicing

of a different character. If a technical product goes wrong, there is immediate complaint, while if a food product proves unsatisfactory complaint seldom reaches the manufacturer; the demand merely falls off.

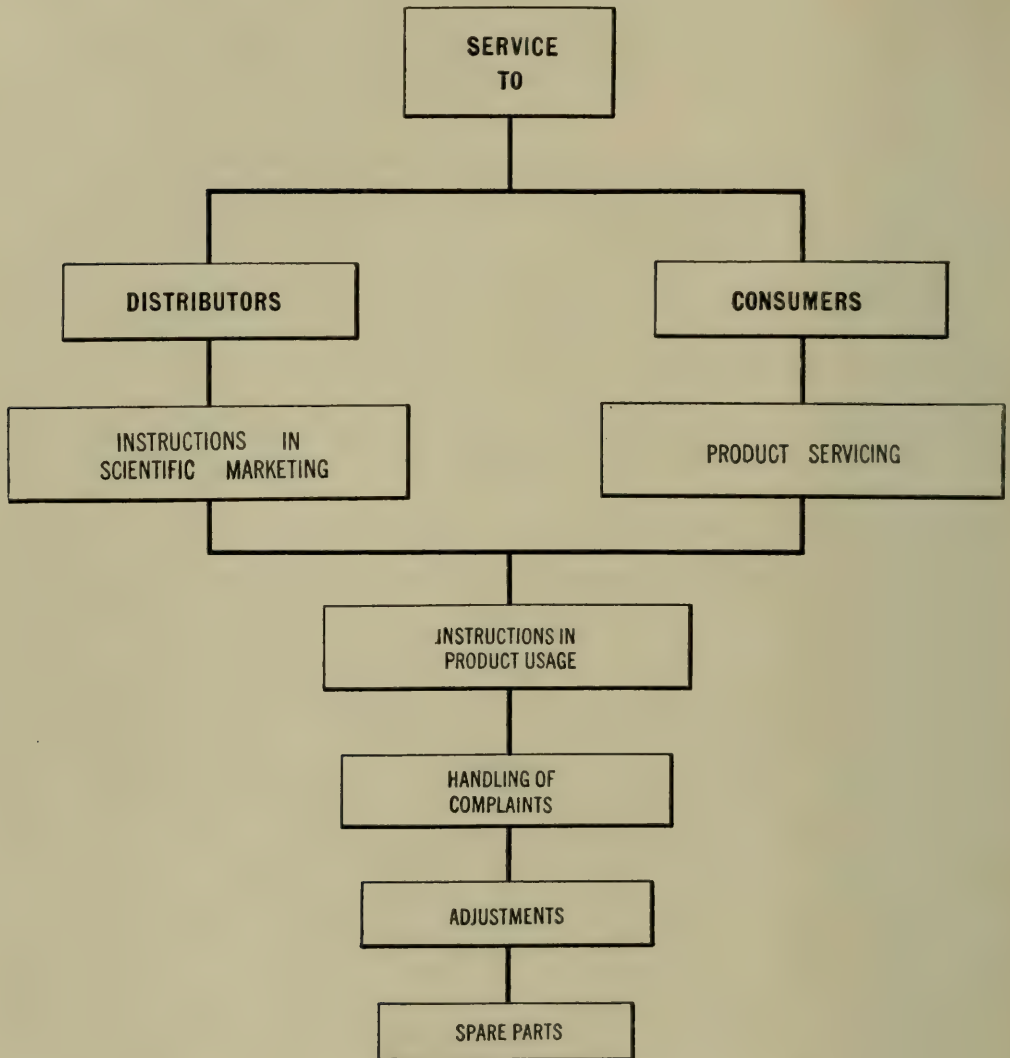


FIGURE 56. FUNCTIONS OF SERVICE DEPARTMENT

Since scientific marketing stresses above all else the principle of objectivity of demand, provision must be made to functionalize the giving of satisfaction to the consumer. His product must be serviced and his reasonable complaints attended to. If the company's product is distributed through retailers, it is essential to work with them for the satisfaction of their customers.

Servicing may include instructions to distributor and consumer as to how the product should be used, either written or delivered by the sales or service force. While every effort must be made



to insure consumer satisfaction during and after the sales process, complaints are sure to arise, and these are to be taken care of in the Service Department. Whatever adjustments are made should be attended to here. Similarly, the problem of supplying spare parts is essentially one of service.

**The Service Department.**—In general the Service Department is not a difficult one to organize. Particularly in indus-

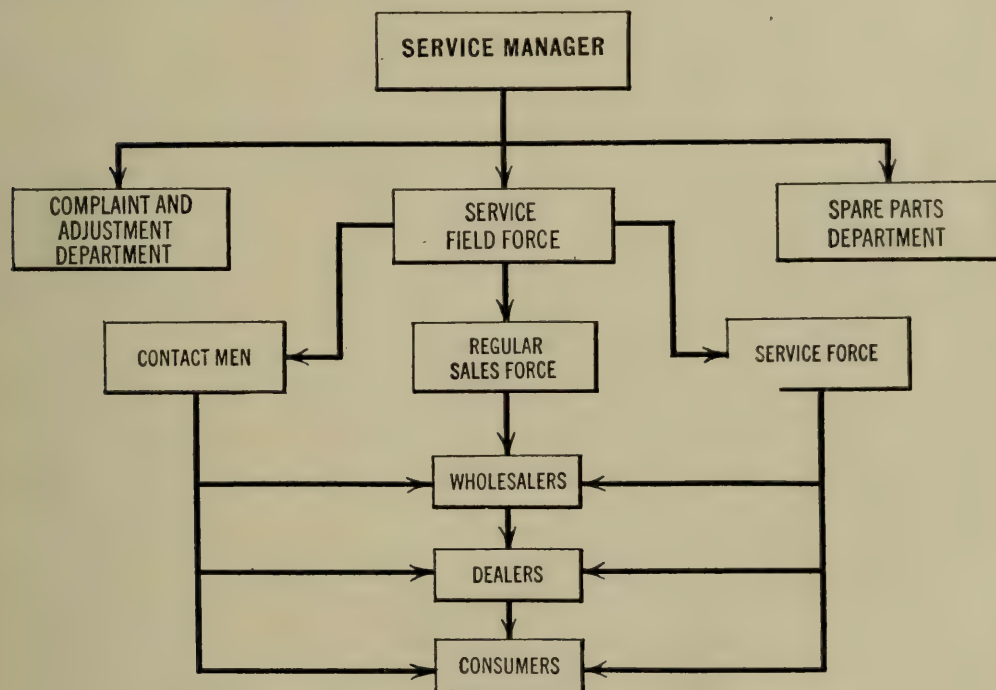


FIGURE 57. ORGANIZATION OF SERVICE DEPARTMENT

The Service Department must be organized so that the satisfaction of the consumer is assured both as far as the relations with the manufacturer are concerned (complaints and spare parts) and also as concerned with his use of the product in his own business or home. Consequently the Service Department may have to employ a contact or service force to visit consumers; if no special force is employed, service must be rendered by means of the regular sales force.

trial concerns, it is advisable to have the Service Manager a factory man, because he will then have a factory viewpoint and can give intelligent attention to the needs of others who are engaged in factory operation. Where, however, service is to be given direct to the ultimate consumer, a man of the greatest tact and judgment is required, who will at the same time be able to safeguard the interests of the company and of the consumer. If the consumer's demands are unjust, he must be able to settle the

question without giving offense. In a buyer's market, the good will of the consumer is a paramount influence.

It is not always desirable to set up a separate department for service, but it is essential to have some one individual in charge of the service function. Whether there is a Service Department or not, the salesmen should be made to feel that their duty to the customer does not end when the sale is made, but that it continues indefinitely.

Fig. 57 illustrates the organization of a Service Department for a concern making a manufactured product for consumer use. There are three main divisions: first, the complaint and adjustment section, located at the home office; second, the spare-parts section, operating perhaps through branches or through distributors; and, third, the service field force, attending to the requirements of wholesalers, retailers, and consumers, either through the regular sales force or through a special force of service or contact men.

It is extremely important to include servicing in the plans made for the marketing campaign. In many companies the Service Manager should form part of the permanent committee. In others he should be called upon constantly for advice. He is, of course, performing a purely line function in accordance with instructions coming to him through the Marketing Manager.

**Servicing the Technical Product.**—In many firms making industrial or technical products—that is, products for use in the manufacture of other products—the service function has been regarded as a production problem rather than a distribution one. This attitude is changing, and rightly so, since service is preeminently a marketing function.

Even in the case of spare parts, the emphasis is not on the production, but on the marketing aspect. The spare part must be delivered to the consumer or customer as quickly as possible, so that he may experience a minimum of delay. His satisfaction will depend on the service which the company gives in this respect, and in many cases his purchase of new equipment will depend on this factor of service of spare parts. Thus Fairbanks, Morse & Company, which has an exceedingly complicated line of products, serving many industries and classes of customers, merely has a factory Service Department specializing on the production and distribution of repair parts. Then the entire sales force is



made to function in a service way along engineering and merchandising lines, with liberal assistance from the factory and from other experts in such matters as the installation and application of the company's products.

The above practice is clearly based on expediency, and under a system of functionalized marketing the service activities could be concentrated under one head.

Service may include an analysis of the customer's needs, where the seller is better prepared to perform this survey. Thus the Lamson Company, makers of conveying equipment, must make a preliminary analysis before the sale is made. As an official of the company<sup>1</sup> says:

"In one manufacturing plant recently analyzed and sold Lamson apparatus, the goods in process were reduced from a fifteen-day basis to a day-and-one-half basis, and this brought much satisfaction to that plant. In another plant, one-half of the required payroll was eliminated with the conveyors at a saving, computed on a five-year basis, of over two million dollars."

The Bassick Manufacturing Company, manufacturers of Alemite products, have a service problem which is practically inextricable from the retail sales problem. Here service depends largely upon retail sales.

**Service for the Intangible Product.**—Rendering service is an exceedingly important matter, in attempting to sell any intangible product, although a separate organization for this purpose is not usually set up. For example, the executive of a large New York bank says: "We do not have a Service Department organized as such, but the duties of each officer and employee include giving as much service as he possibly can, unless the customer's demands are entirely out of reason or out of proportion to the value of the business he gives the bank." The reason for this policy is to put service on a more personal basis and to escape the establishment of various precedents which, once fixed, would be hard to shake off, no matter how high the expenses might run.

The difficulty with giving service without functionalization is that it interferes with routine banking departments, and thus reduces efficiency. The First National Bank of Boston has a regular organized Service Department which has four principal functions:

<sup>1</sup> H. D. Posey, Manager of the Industrial Division of the Company.



1. *Commercial Service*, including reports and advice concerning markets, both foreign and domestic, putting buyer in touch with seller, and *vice versa*, and the translation of foreign correspondence charged to customers at cost. The Service Department did control the bank's library and statistical service, but this has now been made into a separate department.

2. *Personal Service*, such as entertainment of visitors, securing theater tickets, and travel service.

3. *Advertising*, in cooperation with the advertising agency. (This, of course, is normally not a service function.)

4. *New Business*, keeping the records on the basis of which new business solicitation is carried on, and handling of all routine details.

It is interesting to note that in this case the Service Department was originated to take care of non-banking inquiries and services. Out of the original service organization has come a separate Statistical Department, and also a Travel Department.

An interesting manifestation of the service idea is to be seen in the chain of hotels organized by E. M. Statler. Mr. Statler's service principle, as outlined by him in the beginning, was very simple:

No guest to leave the house displeased.

No employee retained who cannot please guests.

Guests must be invited to complain and suggest improvements.

A complaint office to be maintained where competent stenographer will take down on properly numbered blanks in triplicate all complaints and suggestions.

The application of these principles has been responsible for the growth of one of the most successful hotel businesses in the world.

**Service for the Consumer Product.**—Manufacturers and distributors alike are beginning to see that the true satisfaction of the consumer is the only permanent basis for future relations of a profitable and lasting character. Hence has come about the rise in recent years of methods for keeping in touch with consumers and insuring their satisfaction. The scientific system of

marketing reduces this policy from a haphazard and empirical activity to a regular function of the business.

The organization of this function will differ, of course, with the individual company. For example, the Johnson Motor Company states that its "Service Department is maintained for the purpose of keeping all motors that were sold in the past and those being sold at the present time in perfect running order, to render such service in a reasonable length of time, and to take care of all replacements that a mechanical contrivance of this kind is ordinarily subject to." This service is rendered through the factory and through a chain of service stations in principal cities. This is the practice followed by the automobile companies.

The Savage Arms Corporation, which makes washing machines, tries to select its agencies on the basis of the service which they will give to the consumer, since it is believed that the "best advertisement is always the satisfied user, and it is the satisfied users who sell electrical appliances by recommending them to their friends, which is better than any money spent in consumer or magazine advertising."

It is interesting to note that in the washing-machine field from 80 to 85 per cent of all washing machines are sold on the installment or time-payment plan, requiring from twelve to fifteen months for payment. Installment selling has been a powerful stimulus to the giving of service, since during the period of payment the dealer must give prompt and satisfactory attention to the machine and keep it running properly. The Savage Arms Company uses a Guarantee Bond, the terms of which each of its dealers or agencies is responsible for carrying out. See Fig. 58. Several of the company's best agencies do no advertising, but secure all new prospects through service calls alone. Each customer is called upon at regular periods to see if any service is needed and if she is entirely satisfied. During the course of these calls a large number of friends are made, and the names of new prospects are secured, whose business is obtained through the influence of the satisfied user.

Probably it is in the automobile business to which credit must be given for the greatest development of the service idea, that its good-will possibilities have been most widely made use of. An interesting example of this is that of the Packard Motor Car Company. N. A. Lull, of its Service Department, says:



# Guarantee Bond

Mr. \_\_\_\_\_

Purchase Date \_\_\_\_\_

This Guarantee Certifies that SAVAGE WASHER AND DRYER No. \_\_\_\_\_ has been carefully tested under service conditions in our factory and has met all the Standard Requirements.

The machine is guaranteed for household use for a period of one year against all imperfections in workmanship and material; ordinary wear, accidents and misuse excepted.

Parts proving defective within one year, if returned to us prepaid, will be replaced without charge. It is understood that the machine must be operated by the current and voltage for which it is designed.

Savage products are made from the most suitable materials obtainable for the purpose, by skilled workmen, in a most modern and thoroughly equipped plant. With reasonable care the SAVAGE WASHER AND DRYER should render excellent service for many years.

(Should your machine not operate satisfactorily, please notify your dealer. An examination may show that a minor adjustment will correct your trouble.)

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SAVAGE ARMS CORPORATION

Utica, New York, U. S. A.

FIGURE 58. EXAMPLE OF MANUFACTURER'S GUARANTEE

Companies operating under a plan of Scientific Marketing should have the courage of their convictions. A guarantee pledges satisfaction to the consumer: it equally well pledges good will to the enterpriser.



"The Advertising Department sends out questionnaires to the owners of new vehicles. When these have been filled in and returned they are carefully gone over and any which reveal that the owner is not entirely satisfied with the car from a service standpoint are referred to this department. These are handled in the same manner and a very careful record is kept so that the factory is in touch with cars in actual operation at all times."

**The Contact or Service Force.**—As mentioned previously, service may and should be given through the regular sales force, whether or not a separate service force is maintained. In some cases, companies have found it highly profitable to maintain a separate force of men to do nothing but one highly specialized form of service work. Functionalization, by segregating and restricting the selling task, permits higher efficiency throughout the organization.

The Æolian Company, makers of pianos, player pianos, and radios, has a carefully worked out method of continuing the selling process after the sale has been completed. A service man is present when an instrument is delivered. He sets it up, adjusts it, and sees that it is in perfect condition. This prevents anything from going wrong at the start.

Without demand on the part of the customer, periodical calls are made by the service man for a specified length of time, at the expiration of which the customer is asked to pay a nominal service charge for any further service rendered, and to sign the service contract illustrated in Fig. 59.

The feature of this company's service plan is what is known as the Contact Force, standing midway between sales and service. The service function, as the term is used by this concern, is purely mechanical, while the sales function is that and only that, but the duty of the Contact Force is to keep in touch with the customer after the sale has been made. The Contact Man makes his appearance, as a rule, the night upon which the instrument is delivered. He continues the selling process and endeavors to make everyone in the family like the instrument. He finds out what sort of music the family likes best, and then helps to build a library of this sort of music, if the product is a player piano. This, of course, helps in the sale of rolls.

These Contact Men work on a zone system. It is the Contact Man's job to call at certain intervals at every customer's house

# The Aeolian Company

RETAIL SERVICE DEPARTMENT

29 West 42nd Street

New York City

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## RADIO SERVICE CONTRACT

In consideration of \_\_\_\_\_ Dollars,  
payable on the first day of the month following the date hereof, THE AEOLIAN  
COMPANY will service your \_\_\_\_\_ Radio  
at \_\_\_\_\_  
for one year from date, periodically without notice.

This Radio Service covers the following:

- 1—A complete inspection of your Radio equipment once every thirty days. This inspection will consist of a thorough test of the set, conditions of the batteries, tubes and accessories.
- 2—One extra call per month, without charge, in the event that your Radio set develops trouble between our regular monthly inspections.

This yearly service charge does not include the charging of batteries, or the replacements of worn out tubes or batteries, all such replacements being made at our regular retail prices.

For additional service calls, a special rate of \$2.00 per hour will be made to subscribers to this service.

Date \_\_\_\_\_

**The Aeolian Company**

per \_\_\_\_\_

Subscriber \_\_\_\_\_

### FIGURE 59. SERVICE CONTRACT FORM

The Aeolian Company believes it is good policy to see that the customer's radio set remains in perfect condition. Hence it has evolved a method by which service is given at regular intervals after the purchase of the product.

# AMERICAN PIANO COMPANY

REPAIR DEPARTMENT

425 WEST 55TH STREET

NEW YORK

## S E R V I C E

SERVICE should commence immediately with the delivery of the instrument. Do not wait until the owner complains.

Delivery should be arranged so that the SERVICE representative will have time to connect and properly inspect the instrument, tune the piano and instruct the owner regarding its care and operation. Have a polisher go to clean off the piano after the first handling is over.

The salesman then should call on his customer and see if all is satisfactory. He should be conversant on all detail concerning the care and operation, and impress the customer with the facts concerning the SERVICE that will be rendered by reason of his or her purchase.

With each instrument sold the customer receives one (1) year of Free SERVICE. A fixed sum is deducted from the sale and credited to SERVICE for this purpose.

SERVICE on straight pianos consists of keeping the piano tuned and regulated by calls at three (3) month intervals or four (4) regular calls during the year.

SERVICE on Ampicos consists of keeping the piano tuned and regulated, and mechanism adjusted by calls at two (2) month intervals or six (6) regular calls during the year, also giving emergency calls, in addition, when necessary.

Full cooperation should be exercised to keep down the number of "Sure Dates" and in the end more ground will be covered due to the work being done more efficiently.

Our men are not held to covering so many jobs a day, but they are encouraged to do their work right. Ground covering has never proved satisfactory to the patrons or the employee.

Consistent following of this plan will minimize the embarrassing emergency calls, which are very difficult to handle to the satisfaction of all concerned.

There may be many ways to handle the SERVICE situation efficiently depending largely on the location of the dealer and conditions to be met.

### FIGURE 60. SERVICE POLICY OF THE AMERICAN PIANO COMPANY

In this case service is reduced to a regular system whereby the piano is serviced free for one year, after which a charge is made to the customer.



in that zone. He is a species of super-service man, keeping everyone convinced of the value of the Æolian products. These men receive a commission on whatever is sold through their effort or through their leads, even though they themselves do not consummate the sale.

Fig. 60 explains in detail the service policy of the American Piano Company. Here again the policy is not to wait until the customer complains, but to forestall this complaint. While as much service as possible is automatically rendered, it is also given to owners who wish their instruments serviced only at their request.

**Fair versus Unfair Service.**—In rendering service, the manufacturer is not in such a difficult position as the mail-order house, which must make good its guarantee of satisfaction unconditionally. The manufacturer or distributor is many times in a position where he is obliged to investigate the justice of the demands for service made upon him. He must always keep in mind, however, that compliance with what seems an unreasonable request is often the best form of advertising he could invest in.

One difficulty which must be guarded against is misunderstanding with the customer over promises made by the salesman. Often, in the desire to make a sale, the salesman may go too far in his statement of what the company is prepared to do in the way of service, and when the customer finds out he is not to receive all he thought he was entitled to, there is likely to be ill feeling. This may be guarded against by standardizing the selling process and penalizing the salesman who exaggerates or makes unwarranted promises.

One of the hardest complaints to be dealt with arises from unsatisfactory performance of the product, due to abuse by the customer. Almost every manufacturer is likely to experience this in varying degrees. The remedy is to have the product installed by the company's own representatives, or, if this is impossible (as it generally is) to have the product accompanied by such instructions as will make perfectly plain the correct manner of usage.

There has often been somewhat acrimonious discussion between buyer and seller as to the cost of service rendered in the matter of spare parts and repair work. Best policy aims to base service on cost, the profits to be made out of new business. Many

companies feel, however, that they have a right to at least a fair profit in spare parts.

**Service to Distributors.**—The importance of giving service to distributors is rapidly being recognized. Thus, the policy of giving dealer helps has shifted from one where the interests of the manufacturer alone are considered to one where the dealer's requirements are paramount. Dealers' demands will differ in the various lines of industry, from requests for merchandising assistance to inquiries for aid in improving credit conditions.

The manufacturer can render efficient service only if he is well acquainted with the conditions which his distributors have to meet. It is possible to make a market survey for the purpose of eliciting this information, and in many cases such an analysis proves profitable. Fig. 61 shows the complete record kept by the Dennison Manufacturing Company of its distributors. Such a record allows assistance to be made on a factual basis rather than on guesswork, by either the distributor or the manufacturer, as so often happens.

Such concerns as the National Cash Register Company have gone deeply into the problems of making customers better merchants. This is done as a form of its sales service. Other selling agencies, such as the California Fruit Growers' Exchange, try to make dealers into better merchants so as to enlarge the channels for the products of its members, thus turning an apparent expense into a profitable investment. For example, it teaches dealers what the correct economic average margin is for oranges and lemons, how fruit should be displayed, and how to take advantage of the Exchange's advertising.

The installation of dealer helps is often regarded as a service function. These helps are prepared by the Advertising Department, of course.

**Service Through Distributors.**—It often happens that a company desiring to give service to consumers must render this service *via* the retailer, rather than by direct means. The first problem is to show the retailer how the rendering of service is of positive benefit to him, and then to educate him in the best methods of rendering it. This indirect service problem is fundamental in the case of makers of washing machines, vacuum cleaners, or other products of this nature when they are not merchandised through the company's own retail outlets or agencies.





KEY: Place check (✓) mark opposite items purchased from Dennison—A cross (X) mark opposite items purchased from others.  
When more than one grade or number of commodity is carried, circle the grades or numbers carried.

SHIPPING TAGS	Thompson Pin Tickets	Stamp Hinges	Doll Outfits	Party Caps
P-T-D-E-G	Empire Folding Pin Tkts.	Double Gummed Wafers	Paper Dolls	Conjetti
PC-EC-L-C		Target Pastors A-B	Handy Boxes	Serpentine
Large Tags		Consecutive Numbers	Wedding Cake Boxes	Crepe Paper Decorations
Tag Envelopes		Alphabets, Gummed	White Paper Boxes	Crepe Paper Moss
BAGGAGE TAGS		Reinforcements, Gummed	Card Holders	Crepe Shelf Paper
22-23-24-25	GUMMED PAPER	2-3-4-5-9-10-11-13	Paper Fasteners	Crepe Paper Towels
"T" Tags Strung 3T-5T	GLUE-Tubes	14-16-17	Washers	Tray Covers
Tag Fasteners	Bottles-Cans	Adhesive Trans. Tape	Pin Fasteners	White Paper Caps
41-15-700	Mucilage	Cloth Tape, Gummed	Wire Shanks	Crepe Paper Bibs
Barbs with Strings	GUMMED LABELS	Lantern Slide Binding	Paper Clips	Handkerchiefs, Paper
Loose Strings	Bronze Border 300 Line	Lantern Slide Label	Poker Chips	Crepe Paper Rope
Loose Wires	Boxes-Bulk	Index Tabs, Gummed		Electric Shades
	Red Border 200 Line	2-3-5-6-10		Flower Materials
	Boxes-Bulk	12-13-14-15		Leaves-Centers
	In Rolls 200	Bill Straps		Stamens-Petals
	In Books 100-200	Coin Wrappers		Spool Wire
	200 Line, Boxes-Bulk	Coin Cards		Cut Wire
	"A" Line	Coin Cases	DENNISON CREPE	Flower Outfits
MARKING TAGS	Large 1000-2000	Picture Binding	Imperial Crepe	Serving Cup Forms
MR-MRC-100-300-0	Enclosure Labels	Framing Outfits	White Tissue	
500-B-300-600-700	Mailing Labels	Mat Stock	Colored Tissue	
Button Tags	Address Labels	Hangers 1-2-19-21-31	Decorated Crepe	
Watch Repair Tags	Postal Labels		Borders, Crepe Paper	
Jewelry Tags	Sealing Labels		Festoons, Crepe Paper	
SPECIAL SALE TAGS	Preserve Labels		Streamers, Crepe Paper	
SOLD TAGS	Parcel Labels			
Garment Tags	Lawyers' Seals	DENNISON WAX	PAPER NAPKINS	INSTRUCTION BOOKS
Coup. 125-Slotted 135	Notarial Seals	Letter Size	Dennison	
Utility Price Tag 144	Floral Seals	De Luxe Size	Dennison's Crepe Paper	
Key Tags-33K-113K	Bird Seals	Wax Accessories	CLUB-24-27-29-30	
35K-36K-37K	Butterfly Seals	Wax Craft Outfits	4-7-29-34	Prtd. Shipping Tags
Duplicate Checks	Initial Seals, Gummed	Sealing Wax Sets	Fraternal Club	Prtd. Gummed Labels
24-26-32-36	Stars, Gummed	Sealing Wax, Commercial	White Crepe	Prtd. Gummed Seals
Price Tickets	Hearts, Gummed		Lunch Sets	
Glove and Hosiery Tags	Decorations, Gummed		Picnic Sets	Paper Boxes
Tunglock Tickets	Signal Marks, Gummed		Table Runners	Card
Pinless Grip Tickets	Photo Wafers, Gummed	Sealing Wax Seals No. 8	Table Covers	Papeterie
Dennison Fldg. Pin Tickets	No. 1-No. 2		Place Cards	
Empire Pin Tickets	Photo Corners, Gummed		Cut-out Decorations	

YEAR	19	19	19	19	19	19	19
DEALERS' CATALOGUE							
PRICE CHANGES (SUPPLEMENTS)							
PRICE CHANGES (REGULAR)							
ABRIDGED CATALOGUE							
DECORATED CREPE BOOK							
NAPKIN SAMPLE BOOK							
SHELF PAPER SAMPLE BOOK							
LITHOGRAPH CREPE BOOK							
GUMMED PAPER SAMPLE BOOK							
NAT'L SERVICE BUREAU SKETCH BOOK							
MONTHLY SERVICE							
SPECIAL SERVICE							

ILING LISTS

FIGURE 61. RECORD OF DISTRIBUTORS KEPT BY MANUFACTURER

A record of this sort serves many purposes, and helps to make for closer co-ordination between the producer and his distributors. It enables the manufacturer to give better service because it gives a good picture of the distributor and his normal requirements.

The service plan should not be forced upon the retailer, however. If, for example, he is required to service the products which he sells for a certain length of time, financial adjustments may have to be made in return for the expense he has been put to. Once the service plan is in operation, a certain amount of control will be necessary, including the following:

1. A record of sales made by the retailer, giving names, addresses, and type of product sold.

2. A report of service given to customers, showing what repairs have been made, what complaints adjusted, etc. Such a report as this is an excellent indicator of where improvements should be made, either in the product or in the method of distribution.

3. A standard schedule of prices and, where practicable, a standard time table for repairs. Such schedules should be as uniform as possible.

4. A standard accounting method as far as the company's products are concerned, chiefly valuable where the company's product forms all or the major part of the dealer's stock.

## CHAPTER XVI

### CREDIT

THE credit losses of a recent year were estimated by the National Association of Credit Men as being in the neighborhood of \$500,000,000. With an estimated installment credit of three billions, it seems highly probable that the credit losses will be materially increased. Here again, as in all other cases of marketing waste, it is the consumer who pays in the end. Consequently, anything that can be done to reduce credit wastes will be of direct public benefit.

If a credit man were asked what the remedy consisted of, he would probably say that it lay in a stricter credit policy, doing away with installment selling, and the elimination of uncertain accounts. Another possible step which might prove beneficial would be to intrust the credit function to one of the marketing departments, under the control of the Marketing Manager.

There is, of course, a time-honored and basically sound tradition that the Credit and Sales Departments should be separate. This probably goes back to the time when it was not so difficult to sell the goods as to get payment for them afterwards. It has been customary in many firms for the credit function to be assumed by one of the owners, and this has often been satisfactory where the accounts are relatively few and where pleasant personal relationships could be built up. But business is becoming so complex and so large that such a procedure is no longer the rule but the exception.

Credit, furthermore, has tended to become a special activity. J. H. Tregoe, the Executive Manager of the National Association of Credit Men, says, "Dealing with credit properly is professional work, and to cultivate a credit sense requires the study that is not always given to an allied subject."

Any tampering with the credit function as now organized is sure to meet with opposition. Yet there is a constantly grow-



ing feeling that credit and sales are so closely connected that something should be done to make coordination more complete. Various possibilities are suggested, such as placing the Credit Department under the Sales Manager, or having salesmen collect credit information, or even doing away altogether with the Credit Department on the theory that the loss from bad debts will be less than the expense of maintaining this so-called "unproductive" function. The scientific system of marketing places the Credit Department in the Marketing Division under the Marketing Manager.

**The Credit Functions.**—Fig. 62 shows the functions which the ordinary Credit Department will be called upon to carry out in the formation of a credit policy, the investigation of trade risks, the tabulation of credit information, and the matter of adjustments of claims and complaints having to do with terms of payment, discounts, and other minor activities.

The credit policy will be worked out by the Planning Department, approved by the Marketing Manager, and put into effect by the Credit Department.

The emphasis will shift from the present system of collecting information about accounts already opened, or in process of being opened, to credit information about the whole field. Furthermore, it will not rely solely upon data secured from credit agencies, but will go out into the field after first-hand facts. It is unwise, on the other hand, to rely too strongly on facts gathered from the field, until a high degree of proficiency has been attained in this sort of work. It is easy to lay too much emphasis on field information. The mechanisms of credit information are frequently more reliable than the usual field observations and generalizations.

All credit information will be filed under some system permitting immediate reference. There is much to recommend consolidating the credit files with those of the Market Research Department, making them easily available to the Credit Manager.

The question of claims and adjustments will also fall naturally within the scope of the Credit Department's functions.

The credit problem differs widely for various industries and even the various companies within an industry. For a small company, with few accounts, the credit problem is largely a personal one. This is also the case for a large company which

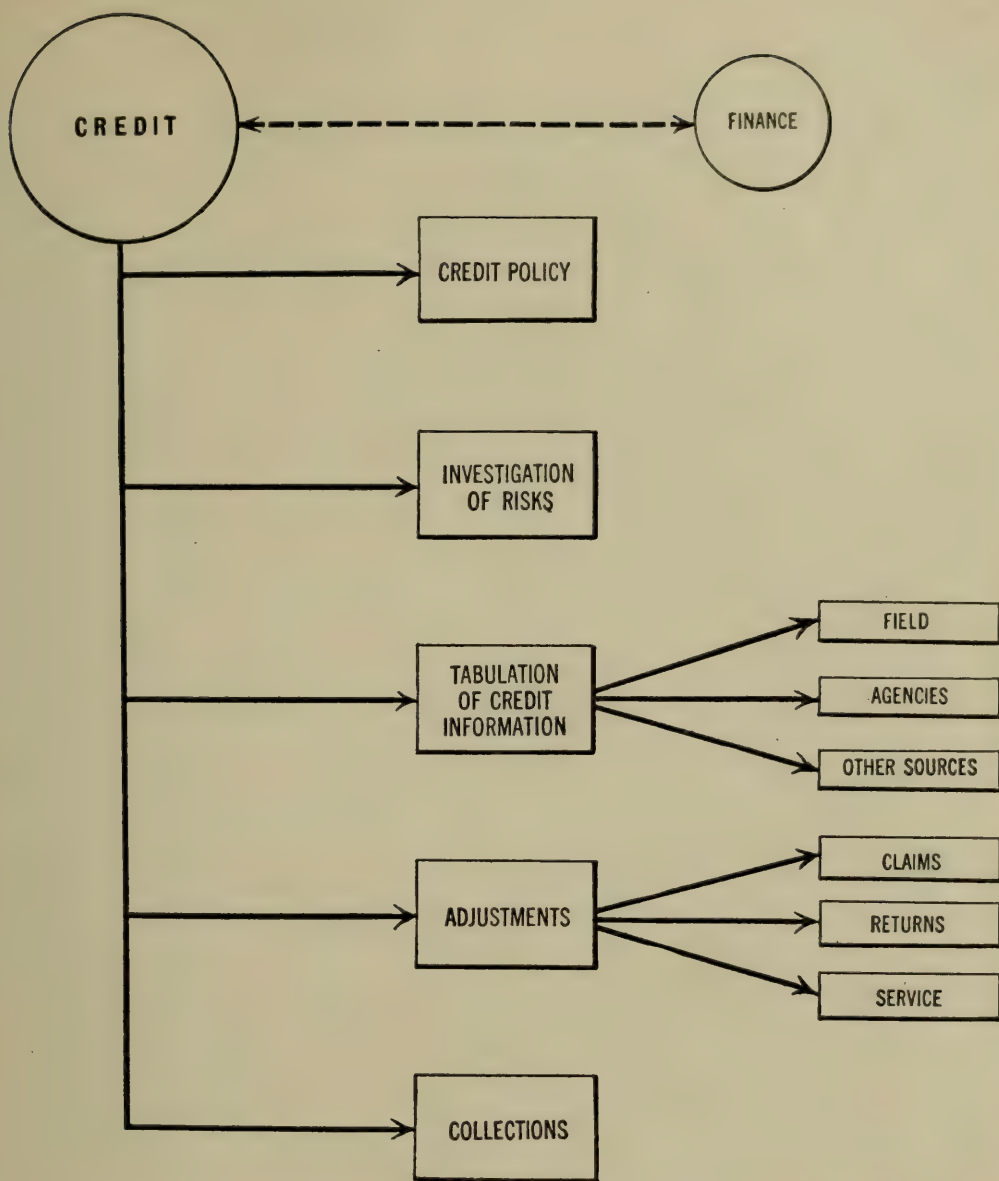


FIGURE 62. FUNCTIONS OF THE CREDIT DEPARTMENT

There is an increasing tendency to regard credit as a marketing function, rather than as a financial function. One solution is to have the general credit policies originate from the Financial Department, but to entrust their execution to one of the departments of the Marketing Division. The close relation existing between credits and sales under a competitive system renders this desirable.

has but a few customers. The importance of the Credit Department tends to increase with the number of customers. In practically every case, its success will depend as much upon its ability to foster pleasant debtor-creditor relations as upon its vigilant surveillance of risks.

The question comes up at this point as to who should take care of collections. Obviously, collections and credits are interconnected at many points. Obviously, also, it will not assist in maintaining good relations to have the Credit Manager and the Collection Manager one and the same. If, therefore, accounts do not pay within the stipulated period, it may be best to turn them over to the Legal Department or to the Financial Department. This should not be done before the Credit Department has done what it can to adjust the claim amicably. One authority on business problems is of the opinion that the Credit Manager is already having difficulty in keeping from being a high-class clerk whose function is to save money. It is true that he must still be the watch-dog of the treasury, but his functions and opportunities are much larger than this. He must possess the broad outlook upon business problems which will enable him to help carry out the program of the Financial Departments. He must be able to modify his credit policies, when business requires it, in such a way as to retain the good will of the company's customers. If installment selling is one of the features of this policy, either by the company itself or by its distributors, he must be able to formulate and carry out a plan which will make it unnecessary to replevin half of the articles sold. Furthermore, if accounts are slow in payment, he must make it his business to find out the reason for this and to suggest remedies.

Fig. 63 gives some idea of how the Credit Department for a medium-sized concern might be organized under a scientific marketing system. The Credit Manager here has two assistants, one of whom takes charge of the office, including files and correspondence, while the other has charge of collection of information from the field and from branches. It is held desirable to centralize the Credit Department, even where a branch system of distribution is employed, although branches should be furnished copies of all credit data affecting their customers.

The Credit Manager himself should be present at all com-



mittees concerned with selling policies and programs. It is he who should be able to reflect the financial point of view. He must work at all times in close connection with the Sales Manager. Since the Sales Manager has been relieved of all non-selling activities, he and the Credit Manager no longer have cause for friction. Their interests are directed towards making profits for the company rather than simply to increase the volume of sales.

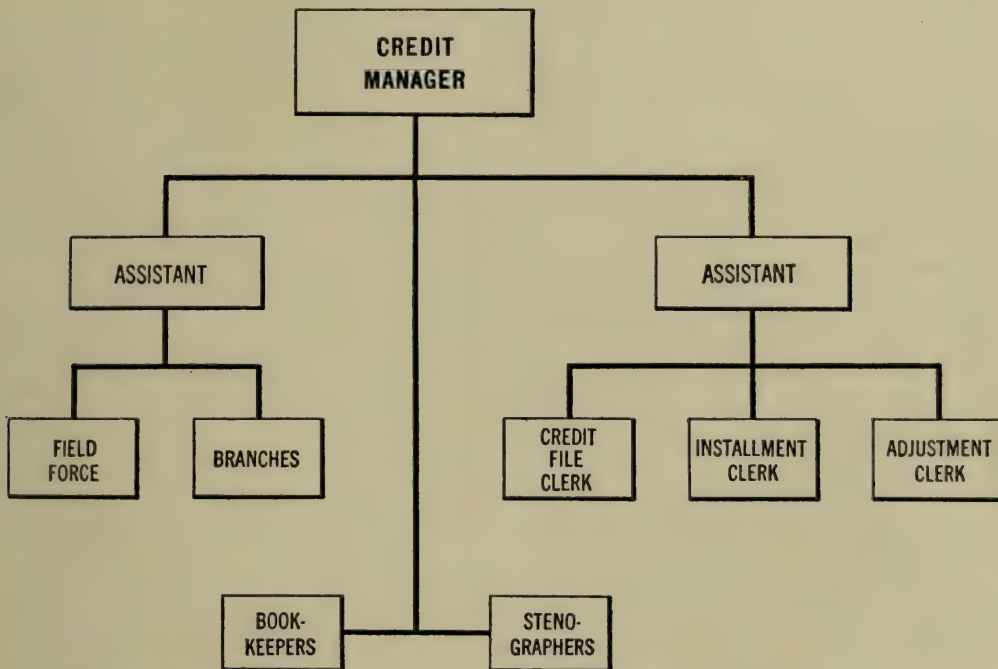


FIGURE 63. ORGANIZATION OF THE CREDIT DEPARTMENT

There are two main divisions of a credit department under the scientific marketing system. The first takes care of the collection of data from the field and from the sales force or branches. The second takes care of the routine office procedure and also of the important question of credit adjustments.

Many authorities look upon credit as a financial function. With reluctance they admit that for "expediency in selling" it may be desirable to include it in the Marketing Division. It is true, of course, that credit is, in many respects, a financial problem, but as far as customer credits are concerned, it is mainly a problem affecting market potentialities.

**The Credit Policy.**—It is extremely important that the credit policy should be carefully formulated. A credit policy

that is too conservative may increase selling resistance and selling costs. In the desire to keep losses down to a minimum, the expenses of doing business may actually be increased. This is said to come about through too close a scrutiny of the agency rating books, which naturally tend towards conservatism. A writer<sup>1</sup> in a business periodical not long ago blamed the National Association of Credit Men for inspiring credit men generally with a negative attitude rather than the constructive one which they should possess.

A buyer's market inevitably means an added deference towards customers. The Credit Department no longer finds it profitable to be brusque in its demands. It does everything it can to avoid hurting the feelings of customers. This "sales" attitude has begun to pervade credit departments in many companies. If the Credit Manager tightens up unreasonably on credits, then the Sales Department is immediately aroused, and, instead of cooperation, there is constant friction.

It has often been pointed out that not to have overdue accounts may mean that the company is adopting too severe a credit policy and is thereby increasing its selling costs. This may or may not be true. Under the scientific system of marketing, the Research Department and the Planning Department will be able to inform the Credit Manager of any impending period of business depression in ample time for him to adjust his policies accordingly. The credit policy should no longer be isolated, but should be correlated with the other marketing activities.

**The Collection of Credit Information.**—One of the best methods of obtaining credit information is at first hand. The difficulty and expense of doing this have given rise to the credit agencies and the various rating books. These books, however, are extremely conservative, and often do not have adequate information about the smaller accounts. Some companies are not rated at all. Furthermore, credit information is constantly changing, so that the books get out of date rapidly. While useful for purposes of corroboration, they should be looked upon as supplementing the company's own investigations.

It is not to be supposed that the various agencies, services, associations, and rating companies which are organized to give credit information on a wholesale basis are to be cast aside. On

<sup>1</sup> Ben Blanton, *Printers' Ink*, February 5, 1925.



the contrary, they should be used as much as ever. One policy of scientific marketing, however, is to build, as nearly as possible, a self-contained and independently operating unit. Outside advice, assistance, and information should be taken advantage of, but they should not be relied upon implicitly. Provision should be made within the organization for checking up on outside contacts of every sort.

Credit information, under a scientific system of marketing, is normally gathered by the field force of the Market Research Department. This service will often go far towards paying the expenses of such a force. In some cases, credit research becomes one of the most important parts of the field force's activities, since its results can be put to immediate and tangible excuse.

The research men have, or should have, the advantage of absolute lack of bias, something which neither the sales force nor the credit men themselves can be said to have. They are trained to size up the merchant, his store, and his method of doing business with absolute impartiality. They can see what problems he has to deal with, whether it is desirable to extend him further credit, or whether credit should be refused. There is none of the uncertainty and impersonality of the stereotyped credit report. Neither is the credit relationship emphasized since the research man collects this information only in conjunction with other purposes. Credit information is a by-product of market analysis.

To a considerable extent, market analysis and credit investigation are identical functions. At least, they overlap to such an extent that they might well be combined under a single head. Credit data are of fundamental importance in making a market survey. The market analyst must of necessity familiarize himself with the financial strength of prospects. Conversely, the knowledge which the Market Research Department acquires is of prime significance to the Credit Manager.

**The Salesmen and Credit.**—The selling end of a business often has a deep-rooted dislike of the Credit Department. This is an unfortunate attitude which can be eradicated most effectually by proper education and training of the sales force as to the nature of the credit function. Hence the rudiments of the credit policy and plan should also be included in his sales manual. In some cases it has proved desirable to make the salesman's re-



muneration dependent upon the amount of credit losses among his customers. In the majority of cases, however, commissions are paid out of gross sales rather than out of sales after returns and credit losses have been deducted.

The argument that salesmen should be the actual collectors of credit information has been vehemently attacked because it is held to be entirely opposed to the salesman's interests to obtain credit data unfavorable to the customer whom he intends to sell. There are, however, Sales Managers who believe that their salesmen should collect credit data on both new and old accounts. They point out justly that it is easier to get accurate information on the spot rather than through printed forms, while the smaller merchants frequently have no credit ratings with the commercial credit agencies. Finally, credit is often a matter of personal judgment, which the salesmen should be able to exercise.

Where the salesmen are to be used as collectors of credit information, and this may be necessary in some cases, then their remuneration should be made dependent upon their credit judgment as well as upon their volume of sales. Many concerns at present require salesmen to make a report upon each new account in addition to the regular form statement filled out by the applicant for credit. See Fig. 64.

**Tabulation of Credit Information.**—Next to the collection of credit information in importance is its careful tabulation. Credit files should be maintained in detail and kept up-to-date. A careful system should be installed for taking care of field reports as they are received. Care should be taken to have all the commercial agency ratings in their most recent form. Sometimes, also, it is desirable to cooperate with other firms by exchanging credit information.

Relationship with the Accounting Department is, of course, very close. The Credit Department must be informed immediately when any account becomes overdue, so that it can take prompt measures to cope with the situation. In some companies, duplicates of shipping orders and invoices, as well as payments on account, are sent to the Credit Department as a matter of course, so that it may know at all times just what the status of any account may be.

The Credit Department in many cases will be called upon to investigate inactive accounts and to ascertain the reason why

1. *Moral standing.*

Local opinion and your own dealing with him should enable you to form an opinion. Give us the benefit of it whether it be good or bad.

2. *Experience and business ability.*

Actual facts, as to this experience, should be easily obtainable in ordinary conversation. The appearance of his store, the conditions of his stock, his manner of handling trade and help, come under your observation and your comments upon them will help us to form a correct opinion of his ability.

3. *Past record.*

We can get this complete, if you will get names and addresses of those with whom the customer deals and will be careful to give us the location and approximate dates of his previous ventures.

4. *Financial worth.*

We can usually obtain information on this point, except in the case of a beginner. Any man, asking that credit be extended to a new venture, should be anxious to give complete information as to its finances. In effect, we are investors in the business and clearly entitled to the information. It should not be difficult to show that it is really desirable and beneficial to give the full facts; every business must depend largely, for its successful operation, on its relations with its suppliers.

5. *Prospects of success from standpoint of location and competition.*

The salesman is chiefly responsible if his house is not fully and truthfully informed on these points.

6. *Existing local conditions.*

This is always valuable information and can be covered in a very few words.

FIG. 64. HOW THE SALESMAN CAN HELP WITH CREDITS

It is sometimes desirable to have the salesman collect and transmit certain information in regard to customers' credit risks. The above six points are used by one company as guides to the salesman in collecting credit information. —*Printers' Ink*, July 22, 1926.



buying has ceased. This task is sometimes assigned directly to the Research Department, which makes the necessary investigation. If this is not feasible, it can be done by correspondence, although not so satisfactorily. If the account is small, it does not usually pay to make the personal investigation.

Where the company has a number of branches, it is essential, under normal conditions, for the Branch Manager to be able to decide upon all but the most important credit questions. If the branch is large enough, it is sometimes feasible to have an Assistant Credit Manager in residence, but in any case the basic credit function should be centralized at headquarters. Otherwise there will be differences in credit policies due to the individual characteristics of the Branch Managers. This tends to make for dissatisfaction and inefficiency. If branch managers are to be allowed wide latitude in the matter of credits, careful rules should be laid down for their observance. It is true, of course, that credit conditions will vary a great deal locally, and that local conditions should accordingly be taken into consideration.

**Installments.**—The question of installment selling is no longer confined to a few isolated cases. It is no longer a question merely of pianos and furniture, or even of automobiles, but of the whole field of credit relationships. Selling on installments has worked upwards from the retailer to the manufacturer, until the volume of sales carried on in this way has become exceedingly large.

Installment selling is a natural outgrowth of competitive super-salesmanship. Unfortunately, or perhaps fortunately, for trade in general, it is a practice which is capable of imitation on all sides, so that no one company receives any lasting benefit from taking it up. Its great spread has been made possible by the rise of the various financing companies, which allow the seller to take his normal profit while the financing company makes a banking profit, and while the consumer pays the double bill.

It is not wise, however, to denounce or to praise installment selling indiscriminately. The standard of good, as always, is the benefit of the consumer. In many cases he is undoubtedly benefited, while in others he receives serious hurt. There is harm in the practice when luxury articles, or merchandise which is rapidly consumed, are sold in this way. There is good in it when the consumer can obtain articles which he could not get in any other



way and which are of lasting utility to him, or which allow him to make an immediate profit. For the contractor to buy a motor truck on the installment plan is undoubtedly good business for everybody concerned; but it is doubtful whether any lasting good results from the purchase of an expensive automobile by a clerk earning fifty dollars a week.

Regardless of the merits of the situation, when the majority of manufacturers in a given industry force installment selling, it is likely that the other members of the industry will follow suit. They must then provide for this branch of credit in their marketing organization. It will be necessary in most cases to have a special assistant to the Credit Manager to take care of this phase of the business, and, if installment selling assumes large proportions, a sub-department may be required, since the clerical work involved is necessarily large.

**Adjustments and Credit Service.**—The final and in many ways the most important credit function lies in the adjustment of problems arising out of the contractual relationship existing between buyer and seller. Where refusal to pay is due to no good reason, severe methods may be justifiable, but there are so often other reasons entering the equation that severity, except after investigation, is almost always a mistake.

Often refusal to pay, or slow pay, is due to some misunderstanding which can be cleared up by adjustment. It may be concerned with the quality of the goods or the terms of sale, or even a feeling on the part of the merchant that he has been unjustly treated. If he has been oversold by the salesman, he is especially likely to feel disgruntled.

It has been estimated that 65 per cent of business failures are due to incompetence and lack of capital. Of this percentage, a considerable proportion is attributable to the inability on the part of the debtor to collect his accounts. Failure of middlemen to pay may be due to the fact that they do not know how to collect their own debts. If this is found to be the case, as many companies have discovered, the remedy lies in showing them better methods of making collections, a form of service which, when tactfully rendered, is almost certain to be appreciated.

## CHAPTER XVII

### MARKETING ACCOUNTING

PRODUCTION has been conducted on a cost basis for years. The application of cost accounting to marketing, however, has always been lacking or incomplete, partly because of the difficulty of getting cost data, and partly because the great pressure towards making sales prevented it. William R. Basset, a well-known accountant, "doubts if a half-dozen concerns analyze their selling costs one-hundredth so intelligently or effectively as they analyze their manufacturing costs."

Sales costs are known in a general way, and are usually expressed as a percentage of the total volume of sales. Such a method of computing costs is apt to be misleading. It fails to indicate where waste occurs or where the greatest profits are made. No information is available on which to base decisions other than guesswork.

In the retail field, on the other hand, the department stores have made great progress, not only in establishing cost systems, but also in the installation of a standard system which makes possible comparison of costs between companies, and allows measurement of sales costs in relation to profits on individual items and departments. The manufacturer argues that the retail store has a simpler problem, and can estimate with exactness the benefits received from given sales efforts. This does not excuse the manufacturer, however, from a large share of responsibility for high selling expenses, and an inadequate knowledge of them. In the majority of cases he has no idea what it costs him to sell in different territories, what each salesman costs him, how much new accounts cost, what kind of orders are profitable, and what kind net him a loss, or which customers are profitable and which are not.

Under a system of functionalized marketing, cost accounting is an essential feature.

**The Accounting Function.**—Wastes cannot be done away with unless and until it is known how and where they occur. Hence the initial function of accounting for a firm adopting scientific marketing procedure is cost analysis, which will come under three heads, under the plan illustrated in Fig. 65:

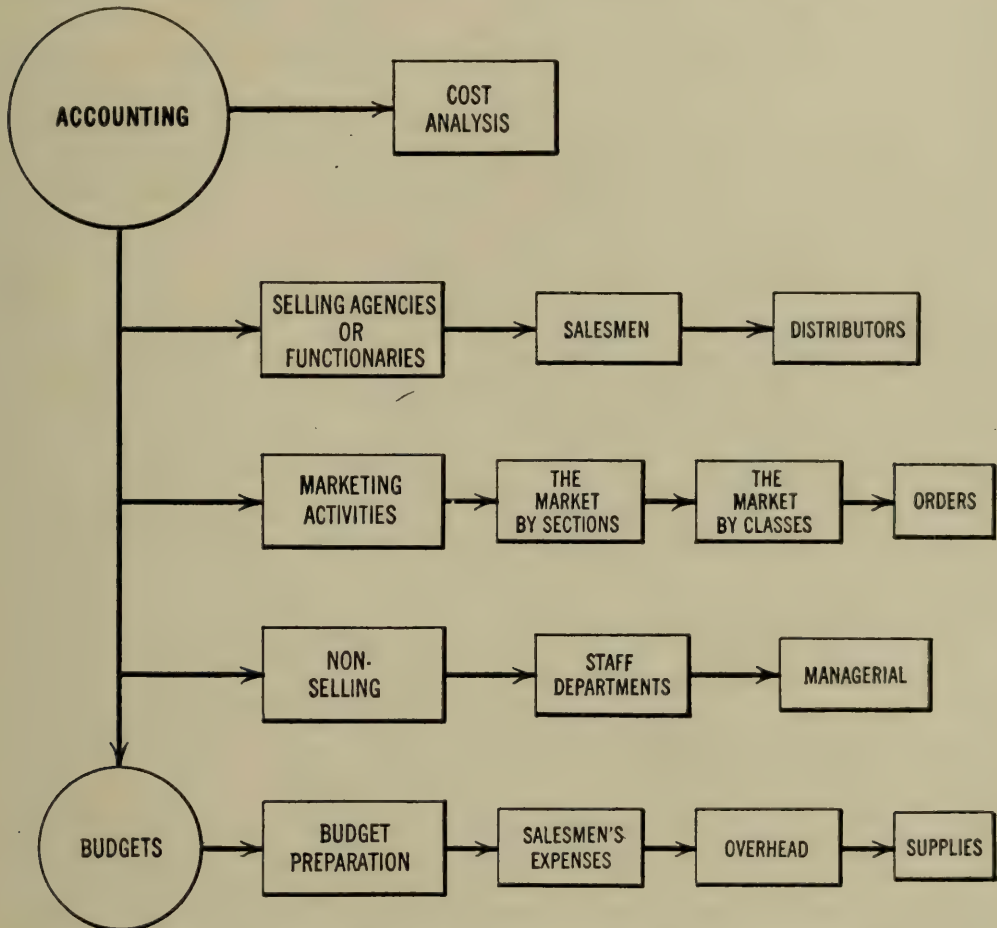


FIGURE 65. FUNCTIONS OF COST ACCOUNTING IN MARKETING

No company can operate under a scientific system of marketing without a detailed knowledge of costs. This necessitates the installation of a well developed accounting system.

1. *Selling Agencies or Functionaries.* The first point to determine is what each salesman is costing the company. If salesmen are not used, it is necessary to determine what the cost of selling each wholesaler or retailer is. Here another problem enters the equation. If a company distributes through wholesalers and retailers, it is desirable to know what it costs each of these selling functionaries to do business.



2. *Market Statistics.* To determine relative costs, it is necessary to analyze markets geographically, by lines, types, sizes, qualities, or styles of merchandise ordered, by amounts of purchases, and perhaps by individual customers (in any case by groups of customers according to amounts ordered).

3. *Non-selling Market Departments.* Under functionalized marketing, it is essential to know what each staff activity costs, and also what proportion of the general overhead of the business must be charged to sales.

When the cost of doing business has been broken down into its component parts, and each has been analyzed carefully, accounting is used to build up an expense budget, to serve as a standard in the machinery of control. Thus cost accounting will determine how much each salesman will cost the company, and what each staff department can spend.

Whenever alternative methods of operation come up for decision, they must be settled on the basis of cost. It is necessary to remember, however, that costs will be higher while making a change from the old to the new system, and that costs out of proportion to profits may need to be incurred in getting new business, introducing a new product, opening up a new territory, or initiating a new service policy.

**The Accounting Department.**—Most companies will already have an accounting department functioning for production and to take care of expense routine. In many cases this will be no more than a bookkeeping department. Cost accounting, however, is a highly specialized procedure and since a great deal depends upon the method used, it is advisable to have a sales costing system installed by a reputable accounting firm. The company itself, unless it is large enough to warrant employing an experienced accountant, capable of planning and installing such a system, will rarely find it necessary or practicable to make any experiments itself. The hiring of competent outside assistance will usually be cheaper in the long run.

After the system has been set up and placed in operation, the company will require the services of a chief accountant, capable of following the procedure outlined, with a suitable number of assistants.

There is something to be said in favor of uniting the Accounting Department to the Market Research Department. Both de-

partments have to do with the analytical study of statistics and neither involves the making of plans or taking constructive action. In the small company such an amalgamation might well take place. In the large organization, however, the work of both these departments will be so extensive and so complex that a separate operation may be preferable, especially since the Accounting Department will be in close touch with the financial administration of the business.

**Cost Analysis of Sales.**—It is essential to know what the sales force costs as a whole and what each member of the force costs individually. The latter information, of course, must be compared with what profit the salesman brings in to the company. It is assumed also that territories have been analyzed and distributed scientifically in accordance with market potentialities, strength of competition, and other determining factors.

Since the accounting function is purely analytical, it must rely mainly for its statistics on the Market Research Department, where the records and other information are kept. It will need the following data:

1. Volume of sales, by territorial divisions, branch offices, individual salesmen, and perhaps by merchandise lines. There is the well-known example, for instance, of the grocery jobber's salesman who obtained a large volume of sales mainly on sugar which brought in practically no profit to the house.

2. Record of accomplishment on some other basis, such as number of calls per day.

3. Actual amounts of compensation paid salesmen according to the present method.

Fig. 66 illustrates how Scovell, Wellington & Company, accountants, estimate the gross amounts available for salesmen's pay. It is assumed that manufacturing costs are known and that total sales have also been estimated with approximate accuracy. The latter figure has been set in this case at \$5,000,000 and is taken as 100 per cent. Since it will not ordinarily be possible to meet this quota exactly, it is essential to make additional calculations of sales at 80, 90, 110 and 120 per cent of expected figures. It is a case of finding the correct balance between company profits, manufacturing expenses, and salesmen's possible remuneration. After all selling expenses have been budgeted, it is possible to determine how much is left over for the sales-



# Determination of Gross Amounts Available for Salesmen's Pay

Item	80%		90%		100%		110%		120%	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
1 Sales.....	\$4,000*	100.0	\$4,500	100.0	\$5,000	100.0	\$5,500	100.0	\$6,000	100.0
2 Manufacturing Cost.....	2,600	65.0	2,925	65.0	3,250	65.0	3,575	65.0	3,900	65.0
Burden	\$1,400	35.0	\$1,575	35.0	\$1,750	35.0	\$1,925	35.0	\$2,100	35.0
3 Overearned.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
4 Underearned.....	22	.6	11	.2	.....	.....	11	.2	22	.4
5 Gross Profit.....	\$1,378	34.4	\$1,564	34.8	\$1,750	35.0	\$1,936	35.2	\$2,122	35.4
6 Expenses	980	24.5	1,000	22.2	1,000	20.0	1,040	18.9	1,090	18.2
7 Net Profit.....	\$398	9.9	\$564	12.6	\$750	15.0	\$896	16.3	\$1,032	17.2
8 Acceptable Net Profit.....	198	4.9	311	7.0	450	9.0	546	9.9	624	10.4
9 Per Cent of Net Profit to Investment.....	5.3%†		8.3%		12.0%		14.6%		16.6%	
10 Profit compared with 100% quota.....	44.0%**		69.1%		100.0%		121.7%		138.7%	
11 Available for Salesmen's Pay	\$200	5.0	\$253	5.6	\$300	6.0	\$350	6.4	\$408	6.8
12 Effective Total Pay compared with 100% quota..	66.6%‡		84.0%		100.0%		117.3%		136.0%	

\* Amounts represent millions—000 omitted.  
† The example assumes an investment (total outstanding capital stock and surplus) of \$3,750,000.  
\*\* i. e., \$198,000 profit = (5.3% on \$3,750,000 investment) = 44% of \$450,000 profit at 100% quota.  
‡ \$200,000 for salesmen = 66.6% of \$300,000 at 100% quota.

FIGURE 66. COMPUTING SALESMEN'S REMUNERATION

Salesmen should be rewarded in accordance with the profit which they earn for the company, rather than in proportion to the gross volume of their sales. But to determine this profit calls for a process sales analysis and sales accounting which most companies today are incapable of. Scientific Marketing presupposes the installation of an accounting system whereby the profit by items and by transactions may be determined.



men, and also for the company, allowing each a fair return, and increasing the return to both as profits as a whole increase. When the total amount available has been set, it is then possible to lay out a system of remuneration which will be based on salesman's accomplishments.

**Branch Cost Analysis.**—When a firm carries out the major part of its distribution through branches, it desires to know exactly what each branch costs and what each brings in, and the reason for the discrepancies between branches. Consequently, they should be instructed to send in detailed reports of operations daily to the central Accounting Department on forms prepared for the purpose.

While there is much to be said for the policy of making the Branch Manager responsible for profits in his district, it is hardly wise to dispense with all centralized control. The central management will not know where assistance should be given without careful cost analysis of branch operations. The branch manager may, at first, be somewhat averse to this system, but it should be easy to convince him of its value to all concerned.

The situation of the manufacturer's branch is analogous to that of the chain-store system's individual units, and much can be learned from the accounting methods developed by the chain stores. Each store is treated as a branch and must show a reasonable profit; otherwise it is closed. There are many manufacturing concerns which could curtail their operations likewise in unprofitable territory. The desire to obtain national distribution often results in costs out of all proportion to the results obtained.

**Analyzing Market Activities.**—Cost analysis must be applied to market statistics to determine whether or not business actually secured is netting a profit, which items are the best profit makers, what customers return the greatest profit, and which sections are most profitable.

Analysis by geographical districts often shows surprising results. A company may make high profits in densely populated sections where the salesman can make many calls a day, while it may register a loss in less thickly settled territories where distances between calls are great. William R. Basset cites the case of a company where fully a third of the net profit made in the East was being lost in the West. He also describes a case where 80 per cent of the sales came from 25 per cent of the customers,

and another instance where 74 per cent disposed of only 26 per cent of the sales but had 60 per cent of the total selling expense charged to them.

Analysis of costs by lines of merchandise has in the past made possible a considerable amount of standardization. Scientific marketing calls for a production schedule of profitable items which reflect market demand rather than salesmen's requirements for easy and high-pressure sales efforts. It is often discovered that the majority of profit comes from a comparatively few lines, and that by tactful handling the unprofitable lines can be eliminated, while customers are shifted over to the standard styles, sizes, or qualities.

Analysis of orders, their size, the items of which they are composed, the relative profits, and of other data concerning them is an important task. This will involve a comparison between the cost of obtaining new orders and that of orders secured from old accounts. Often it is discovered that new accounts are costing a great deal more than is warranted by the sales obtained.

The size of orders is often an important factor. A company may find it loses money on all orders below \$100, for example. If this is the case, it should revise its selling policies with a view to obtaining orders of this size or over.

Analysis of customers is another important subject, closely connected with the analysis of orders. The Western Electric Company has devised a form for keeping track of individual customers' accounts, giving annual sales, average gross profit rate, number of orders handled, and average amount of profit per order. (See Fig. 67.) It found in this way that a large volume of sales to a single customer did not necessarily mean that the company was making money from this order, but that other elements besides volume of sales were essential factors in the equation.

**Apportioning Overhead.**—Under the scientific system of marketing, where each function is departmentized, it is possible to apply cost accounting more effectively than under the old method, where all functions were mixed inextricably. In fact, cost accounting for scientific marketing is essential from the point of view of control. Staff departments, while they serve to reduce wastes, making marketing more efficient and therefore more economic, may be over-emphasized. For example, when market

	Sales	Gross Profit Rate	Amount Gross Profit	No of Orders Handled	Average Value Per Order	Average Profit Per Order	Average No Days Receivable
January.....	_____	_____	_____	_____	_____	_____	_____
February.....	_____	_____	_____	_____	_____	_____	_____
March. ....	_____	_____	_____	_____	_____	_____	_____
AVERAGE 1ST QUARTER .....	_____	_____	_____	_____	_____	_____	_____
April.....	_____	_____	_____	_____	_____	_____	_____
May.....	_____	_____	_____	_____	_____	_____	_____
June.....	_____	_____	_____	_____	_____	_____	_____
AVERAGE 2ND QUARTER.....	_____	_____	_____	_____	_____	_____	_____
July.....	_____	_____	_____	_____	_____	_____	_____
August.....	_____	_____	_____	_____	_____	_____	_____
September.....	_____	_____	_____	_____	_____	_____	_____
AVERAGE 3RD QUARTER.....	_____	_____	_____	_____	_____	_____	_____
October.....	_____	_____	_____	_____	_____	_____	_____
November.....	_____	_____	_____	_____	_____	_____	_____
December.....	_____	_____	_____	_____	_____	_____	_____
AVERAGE 4TH QUARTER.....	_____	_____	_____	_____	_____	_____	_____
AVERAGE 12 MONTHS.....	_____	_____	_____	_____	_____	_____	_____

FIGURE 67. MONTHLY ANALYSIS OF INDIVIDUAL CUSTOMER'S ACCOUNT

Profits on sales do not necessarily run proportionate to their volume. Cost analysis is the only way to determine where profits and losses are occurring.

(Western Electric Company)



research departments were first installed, they were regarded as business panaceas and considerable sums of money were spent on them which never gave adequate return. Staff departments are tools for coordinated use and in themselves cannot prove self-sufficient.

Reducing control to a cost basis implies the formation of a budget. Each staff department is allowed a certain amount for expenses. A further amount is set aside for the expenses of management—that is, the salary of the Marketing Manager and his assistants.

**The Sales Budget.**—The sales budget will be made up on the basis of cost analysis. The advertising budget will normally form a part of the sales budget. The completed and approved budget will form a measuring stick by which operations will be conducted.

The head of each department in the Marketing Division must prepare a statement of expenditures for the coming budgetary period, usually six months or a year. This will be compared with the budget for the preceding year. If any radical increases in allowances are asked for, these must be explained in detail. The Accounting Department will check all budget estimates. It may be advisable to have one member of the Accounting Department concern himself solely with the preparation of the departmental budgets. Each month the department heads will submit statements of expenses which will be compared with budget allowances. If, for any reason, the credit is exceeded, satisfactory explanations must be given.

The budget, of course, will be based upon estimated sales, estimated profits, and estimated expense of selling. Titular control of the budget will vest in the Marketing Manager, although for all practical purposes it will be administered by each department separately and audited by the Accounting Department, which will check all items before they are paid.

If the company in question has serious seasonal problems to cope with, the budget will be larger at certain times than at others—that is, it will be graduated to take care of seasonal increases and decreases. In the beginning, before the scientific functionalized system is well established, budgetary periods should be short and budgets should be revised frequently. It will be impossible to make exact estimates until after the system has

been in operation long enough to provide cost records over a considerable period.

It is important to differentiate between the budget activities of the various marketing departments. The Marketing Planning Department sets up the budgeting policies, and is responsible for submitting to the Marketing Manager a budget which is adequate to the situation in hand. The Marketing Accounting Department makes up the budget in accordance with the requirements set forth by the Planning Department, and is furthermore charged with responsibility for keeping track of expenditures and comparing them with the budget. Neither of these departments, however, exercises any *control*, since both of them are staff departments, not line departments. Budgetary control is effected by the Marketing Manager himself.

## CHAPTER XVIII

### DEPARTMENTIZATION OF THE SECONDARY MARKETING FUNCTIONS

THE marketing functions described in the previous chapters are primary functions. That is, they are of universal application. There are cases, however, where a company will have some particular problem which will require special treatment. A large packing concern will regard a traffic department as of the utmost importance; a department store will include buying in its category of primary marketing activities; while a firm such as the Dennison Manufacturing Company will regard the finding of new and novelty products as an activity of much moment.

Thus, the foregoing division of marketing functions should never be taken as final or conclusive. The departmentization in each case should proceed only after a careful analysis of the company's marketing problems. If it appears that, owing to peculiar circumstances, some unusual arrangement is best, then this plan should be followed. It is important to remember, however, that the tendency to regard each business as individual and peculiar should not be allowed to interfere with the recognition that the various marketing functions, such as research, training, and planning, are fundamental. If, in some particular case, a marketing function does not merit departmentization, this does not mean that the function will not have to be provided for.

No adequate classification of these special marketing departments can be made. In this chapter, a few cases will be indicated where such action may be desirable, as in the case of purchasing, traffic, and the finding of new products.

**The Purchasing Department.**—The relation between selling and buying is in many cases extremely close, since both are complementary marketing functions. In department stores, for example, the result of the close coordination between the two is to place on one individual the responsibility for the success of



both processes. This is such a logical and obvious procedure that any other alternative would seem hardly worth while, unless, of course, the markets dealt with were of a very simple nature, as, for example, in the chain-store grocery field.

Where there is no similarity between the markets sold to and those from which the company buys, or where the technical processes of manufacture require expert engineering specifications, the Purchasing Department comes normally under the authority of the Production Division. Too frequently, purchasing degenerates into a mere process of writing orders. But such laxity cannot be tolerated. A different type of purchasing agent is needed—not the kind who waits at his desk till the highest-powered salesman comes in, but one who goes out and gets the best buy for his company regardless of all personal considerations.

Good buying is probably the best antidote for supersalesmanship. Purchasing is becoming more and more highly developed as the inevitable need for a corrective becomes apparent. The company operating under a system of scientific marketing will find great opportunities for profit through the proper treatment of purchasing as a marketing function.

Partly in order to deal more effectively with the onslaughts of supersalesmanship, organized efforts have been made to purchase on a more logical basis than formerly. This tendency to organize for buying is an important one, and its possibilities should always be carefully considered when plans are being made for introducing a system of scientific marketing. The Marketing Division already possesses in the Market Research Department an effective tool, made for the very purpose of studying market facts which apply to buying as well as to selling. The Market Research Department in many cases can and should supply the market facts upon which purchasing decisions are based. This close connection may entail some changes in some organizations, such as making the Market Research Department a staff department serving both the Marketing and Production Divisions.

**Traffic Department.**—One section of the Marketing Division which is often not treated with sufficient attention is that having to do with the forwarding and delivery of goods from seller to purchaser. The amount of money spent on transportation expense, of course, varies widely with the industry and the business. In clothing manufacture, the traffic expenses may

not amount to more than 3 per cent of the total, while in the case of building materials or coal, it might amount to from 50 to 80 per cent of the total. In the latter case, of course, a regularly organized Traffic Department should form a part of the Marketing Division. For organizations such as Swift & Company, which forwards daily 500 cars to its distribution agencies, the Traffic Department is of the utmost importance.

The most important feature in the sound organization of a Traffic Department is the centralization of all traffic activities under a single official, normally known as the Traffic Manager. This follows out the principle of functionalization so often stressed in the preceding pages as one of the fundamentals of marketing organization.

The Traffic Manager should normally be subordinate to the Marketing Manager. He will play an important part at committee meetings where distribution policies are being formed. He will be of use in the making up of budgets because of his knowledge of transportation costs. He will often be able to point out certain markets where peculiar advantages are enjoyed because of special transportation facilities.

In addition to the purely routine duties of the Traffic Department, it will also have to deal with the preparation, presentation, and collection of claims, the preparation of shipping forms, the auditing of freight bills, the tracing of overdue shipments, rate and service adjustments, and many similar problems. (See Fig. 68.)

There are instances where the Traffic Manager would not necessarily be answerable to the Marketing Manager. There is, for example, the Norton Company of Worcester, Mass., where the Traffic Manager is important enough to emerge as a major executive of the company. In this case the great bulk of his duties have to do with the movement of raw material and with interplant transportation.

**Product Analysis Department.**—For certain companies it will be desirable to place product analysis in charge of a separate department, the function of which may be the following: In the first place, it may be delegated to find new uses for old products; second, it may be required to discover a new product for the purpose of rounding out an established line to be sold through a single channel of distribution; third, it may have to find a new



product or new lines to be sold through new outlets in order to stabilize the production schedule, to increase production in order that overhead may be reduced, or to take care of certain production facilities which are not being utilized to best advantage.

A company which makes products where the style element enters to any considerable extent must constantly be putting out new products, or new models, or new styles. Few companies

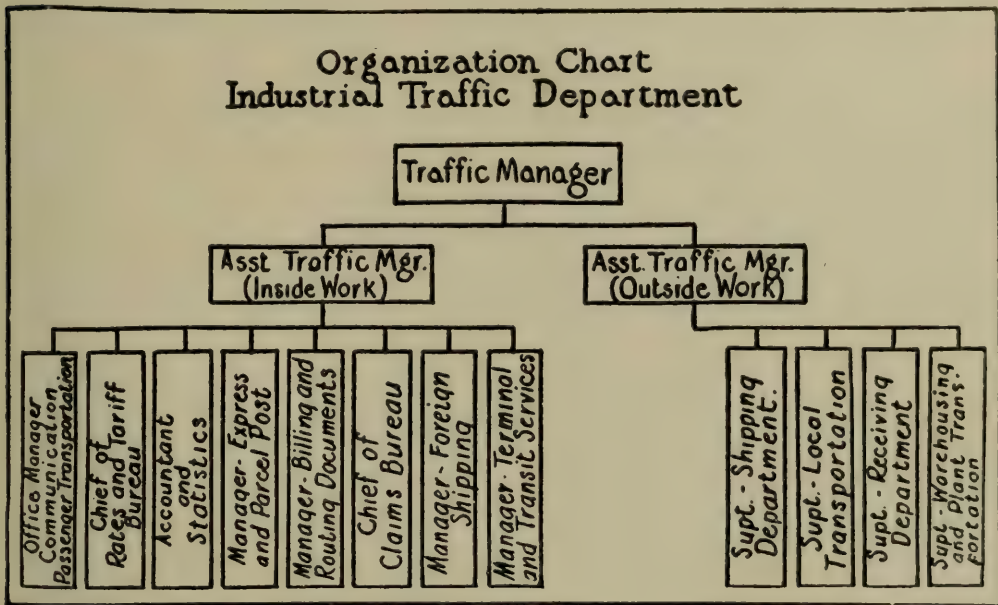


FIGURE 68

This chart sets forth the various functions which should be centralized under the control of the Traffic Manager. It will be noted that the clerical and office work is assigned to one assistant while the physical handling activities are delegated to another. Even communication, passenger traffic, and materials handling are now being delegated to the Traffic Manager for centralized administration.

*(Manufacturing Clothing, March, 1925)*

face this situation in a scientific manner. The majority of them simply take up a new line from necessity, or are sold an idea by some promoter, or start the manufacture of some article in the desultory belief that it will be desired by the market.

Obviously, product analysis is a branch of market analysis, but when it assumes a position of major importance in the company's problems it deserves separate treatment and the employment of some individual who is fitted to handle it. Adding a new product which is marketable through channels of distribution already established makes in many cases for greater yield for



a given amount of marketing effort. On the other hand, introducing a new product which calls for the establishment of an entirely new set of distributive channels means greater initial marketing expense, but gives an opportunity to guard against losses which are inevitable as long as a company devotes itself exclusively to serving a single line of trade. Serving several lines of trade distributes the risk, reduces seasonal and cyclical losses, and makes for greater stabilization. Needless to say, the company must be large enough and strong enough financially to permit it to compete in several lines of business, since this usually costs considerably more than to specialize in a single line.

**Limitations on Choice of New Product.**—The factors which limit the choice of a new product are usually of three types; first, financial; second, sales; and third, production.

There are few companies which are not limited financially as to the amount of capital available for new-product development. Only in exceptional cases would a company be justified in erecting new plants or installing new equipment on a large scale before the possibilities of the new product were exhaustively tested on the market. Furthermore, it is highly desirable to choose a product which will not be subject to the same cyclical and seasonal fluctuations which affect the products already made by the company, although this goal cannot always be attained. The patent situation, of course, must also be looked into.

As far as the selling problem is concerned, it is usually desirable to have a product which will fit into the company's experience, traditions, and sales facilities. This means that the sales organization itself should not have to be altered too radically, although it will undoubtedly have to be enlarged, or even a special sales force employed. The most important factor in this connection is the reception by the market or, to use the technical term, the "sales resistance."

Production requirements will normally be fairly rigid, depending on the type of manufacturing already being carried out. Any attempt to manufacture products which are not suited to present facilities will usually cost too much to make it profitable. If the product were so alien in character as to require an entirely different factory set-up, it would be better to organize a separate division of the business.

**New-product Procedure.**—Where product analysis becomes an integral part of the company's daily work, there will always be research going forward aimed to perfect a new product, suited to the requirements of the market. Where the company is not regularly organized for this purpose, on the other hand, it may be advisable to find an outside organization specializing in this type of work.

Following is the description of the method of attack used by one marketing expert, in finding a suitable new product. First, the requirements of the ideal new product for the company in question are discussed and defined. Second, the complete panorama of all the products which might possibly be manufactured by the company is delineated. These products are suitably classified, and each classification is analyzed in the light of its fitness. By a process of elimination, the less desirable products are discarded, and finally, from a selected list of possibilities, that one which best suits the company's purposes is recommended as the one which should be manufactured.

In using the classification of products, the first task is to consider the industries, one by one, dividing them, for example, into good, fair, and poor, according to their apparent applicability to the company's purposes. In this way, it should be possible to decide upon not more than three or four lines of business which ought to present the best fields for the company's activities.

Having determined what these three or four most opportune fields are, it is necessary next to examine each of these more intensively, with a view to finding what portions of each seems to constitute the most fertile ground for cultivation. It may appear that some group of products in any single classification will automatically eliminate itself, either because it requires certain equipment which does not meet the company's requirements, or because that group is already well provided for by other manufacturers, or because it does not promise to expand so rapidly as would be necessary in order to justify the expense which is always involved in developing any new lines.

Having picked out the groups of best products in the several best industries, it becomes a matter of judgment to compare the merits and advantages of each, in order to decide which would prove to be the best manufacturing proposition.



The basic reason why such a plan as the above is advisable is because only by working from the general to the specific, and by painfully and gradually eliminating the undesirable products, can there be any assurance that the best possible product has been found. By guessing first at one idea and then at another, the best product might conceivably be hit upon; but there would be little to prove that the product thus chosen was not less suitable than some other product which had never even come up for consideration.

**Sales Promotion.**—The term *sales promotion* is widely used, and as widely misunderstood. As used by most companies, the term refers to almost any marketing activity except selling. The average Sales Promotion Department has been evolved to fill an ever-growing need. It is a place into which are swept all tasks which might interfere with the line job of selling. The sales-promotion movement is a manifestation of the growing need for the functionalization of marketing activities.

As used in this book, the term *sales promotion* refers to the service extended to marketing functionaries who are not a part of the company's own organization, such as dealers and jobbers. This is a much narrower definition than the usual one. The Metropolitan Life Insurance Company, which has made rather an extended study of sales-promotion activities, found that they covered a wide range, such as:

1. Planning and administering sales contests and sales campaigns.
2. Devising sales methods, plans, and propositions.
3. Planning and conducting sales conventions, sales exhibitions, and demonstrations.
4. Publishing sales bulletins.
5. Managing agency conferences.
6. Developing standard sales letters.
7. Assisting salesmen by placing at their disposal, in usable form, the best work of the Publicity Department.
8. Promoting the company's advertising to customers in such a way that they become better prospects for the company's salesmen.
9. Assisting in opening new markets, and discovering and exploiting new uses.



10. Increasing business of established territories and developing new prospects and new lines.
11. Passing on to local officers methods used successfully to hire and train, inspire and develop new men.

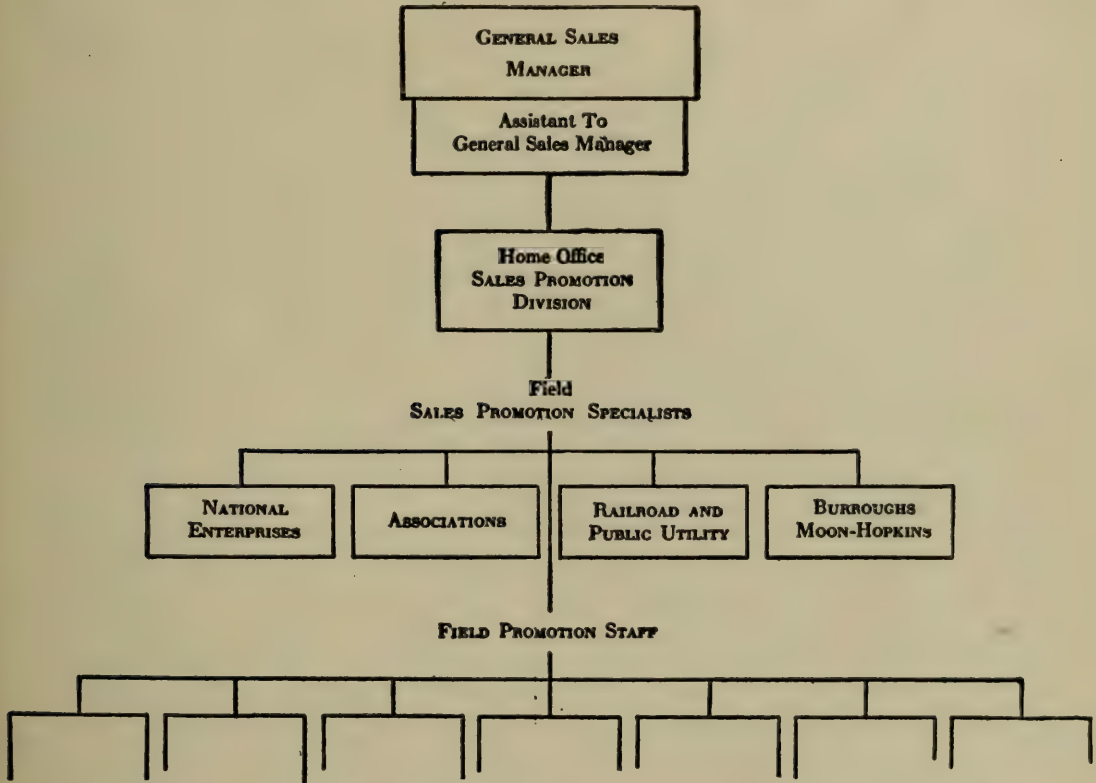


FIGURE 69. SALES PROMOTION DEPARTMENT OF A LARGE COMPANY

This concern, the Burroughs Adding Machine Company, formerly left everything to the discretion of branches and agencies. Gradually, it realized that this did not make for maximum efficiency. As one of the Company's sales executives expressed it: "The agency can plan its work, use the most progressive sales methods, develop its territory, and yet not have all the latest and best information on marketing and machine applications available from all Burroughs territory, which is the world."

*(Metropolitan Life Insurance Co.)*

There may be some companies operating under a system of scientific marketing which will require a separate Sales Promotion Department, in addition to those already provided for. But this will be a rare necessity. Once the "primary marketing functions" have been provided for, there seldom will be any need for further complicating the organization.

The Burroughs Adding Machine Company has a well-organized Sales Promotion Department. (See Fig. 69.) The duties of the

Home Office Sales Promotion Division are summarized by the company as follows :

1. The promotion of sales of various products.
2. Supervision of field promotion men.
3. Sales contests.
4. Production of sales instruction and educational material.
5. Sales bulletins.
6. Business and industrial shows.
7. Agency conferences.
8. Company sales schools.

Perhaps the most interesting feature of this plan is the Field Sales Promotion Staff. These men take the place of "pep letters" from the Sales Manager. They do their promotional work on the ground, rather than trying to do so from a distance—the latter procedure being characterized as "trying to be a football coach teaching his men by telephone."

Traveling about the country, the field promotion men learn methods and collect valuable data, which, when put into assimilable form, are used by the selling organization. These men are really coaches, and perform the same duties as does the Training Department of the scientific marketing system. Their duties, according to the Metropolitan Life Insurance Company, are :

1. To instruct and train salesmen on machine applications, methods of analyzing customers' needs, to give demonstrations, to analyze territories, and to develop working plans.
2. To assist managers in bringing more men of the right type into the business by keeping managers informed of the methods used by agencies which are successfully hiring and training new men.
3. To establish more intimate relations and understanding between the factory and the field.

A recent writer <sup>1</sup> has pointed out that comparatively few sales-promotion departments have been successful. "Twenty out of every hundred Sales Promotion Departments," he says, "are so thoroughly unsuccessful that they are wiped out of existence. Twenty-five out of every hundred Sales Promotion Departments fail of complete achievement and are merged with or absorbed

<sup>1</sup> James Parmenter, *Advertising and Selling*, September 8, 1926.

by the Sales Department or the Advertising Department. Fifty-five out of a hundred Sales Promotion Departments are sufficiently successful to retain their separate identities—but only eighteen out of a hundred are so markedly successful as to be constantly intrusted with new duties formerly regarded as functions of other departments.”

The fact that a large proportion of these departments fail is less significant than is the fact that they were started in the first place. They failed because the methods used were inadequate and were not scientifically developed. But they sprang into being because business men had begun to realize that only through specialization and functionalization of marketing could maximum efficiency be attained.





PART VI

INSTALLING SCIENTIFIC  
MARKETING

CHAPTER XIX. METHODS OF REORGANIZATION

*This chapter outlines some of the methods by which the system previously described may best be put into practical operation.*





## CHAPTER XIX

### METHODS OF REORGANIZATION

THE system of scientific marketing outlined in the previous chapters, under ordinary conditions, cannot be put into effect without delay. The average company will already have built up a more or less successful marketing organization, and the framework thus established cannot be overturned heedlessly without injury to the prosperity of the concern. Thus a process of reorganization will be required, which will gradually do away with outworn practice and substitute the new methods for it.

To carry out this reorganization successfully a specialist will be needed. An outsider will usually be able to deal best with the many difficulties which are bound to come up. One who has grown up with the company or has been with it long enough to absorb its policies is seldom well fitted for the work of reorganization. Without intention, he will be affected by his own habit and beliefs.

The organizer will be called upon to submit for approval the procedure which he intends to adopt in installing the new system. He must be ready to give estimates of time and expense and, in general, to outline the steps to be followed. It will be his task to win the personnel over to the improved system, and to secure the cooperation of all the executives of the firm as well.

**Convincing the Directors.**—Before any attempt is made to introduce a system of scientific marketing, the owners of the company must be made aware of what is to be done, what results are desired, and how they are to be accomplished. The basic principles of the new plan should be explained to them at length. It is much better to persuade the owners of the value of these principles in advance, rather than to have this to do at some later period when explanations are demanded, perhaps as the result of some temporary reverse.

The owners should be shown that the principles are sound and

modern, and that they are certain to prevail eventually. At the same time, it should be explained that the introduction of these principles will be neither simple nor inexpensive, and that considerable sacrifices may have to be made in order to secure results. They must understand that many ways of doing things which were successful under the old arrangement will not be suitable under the new one.

The question of who is to carry through the reorganization must be settled at the outset. The owners must be convinced that it is better to engage a special man or group of men to introduce the new system than to expect that the present managers will be able to make the changes in addition to the other multifarious duties. They must also comprehend that during the process of reorganization more executives will be required than under the old plan or than will eventually be needed when the new scheme has been made to operate successfully.

All these unfavorable aspects of the situation are but incidental. The additional expenses involved will soon begin to be reduced by virtue of the fact that the improvements will, at an early juncture, begin to pay for themselves. Before this time, however, many prejudices will have to be overcome, and not least among these will be the prejudices of the owners themselves. Some of their trusted employees also will have prejudices which cannot be uprooted; therefore these men will be lost to the company.

**Requisites for Successful Reorganization.**—Successful results cannot be expected unless the general type of marketing organization is carefully chosen in advance, unless ample funds are provided for making the change, unless a sufficiently long development period is provided for, and unless the work is carried on in such a way and in such sequence that the marketing operations of the company during the process of reorganization are not impaired. There must be no undue interference with the daily task of disposing of the company's product.

There is much to be said in favor of the claim that a company with a fairly efficient marketing organization had better leave it alone rather than to make basic changes in it. Such changes are more than likely to upset the smooth operation of the company, while the preliminary organization changes may discourage its executives before there has been time for the new system to arrive at a paying basis.



One of the hardest tasks in any reorganization is to demonstrate the value of the results which are being obtained. It is almost impossible to measure these in any way which will appear striking to the executives of the firm. There is, in fact, little tangible to show except the organization itself. It is true that this organization presumably operates on a lower cost basis than the one which it replaced, and that the efficiency of the whole mechanism is higher; but still there is nothing tangible in the earlier stages but a few records, and the organization itself.

Business men have a way of taking all improvements and betterments for granted, as though they were mere matters of course. For his own protection, therefore, the organizer should keep careful record of his progress, and should take special pains to obtain a complete and accurate statement of the condition of the company's marketing activities as of the date when his period of tenure begins.

An organization is admittedly difficult to visualize and to appreciate the value of, as compared, for example, with a factory building, a battery of machines, or a set of office equipment. The only answer to this situation is to state there is little use in introducing scientific marketing at all unless the management itself has enough native intelligence to be able to visualize the changes which are to be made, to see their advantages, and to put forth concerted effort to help obtain them.

Over-confidence, however, on the part of the management may prove as disastrous as too little confidence. It is easy to become enthusiastic about a plan for introducing a new system of marketing. The officers see an opportunity for building a greater production, due to improvements in its distributive facilities, and plans are hastily made for taking preliminary steps. A man is engaged to take charge of the reorganization, and the first moves are immediately made to introduce the changes which are expected to induce such signal benefits.

In a short time the management calls in the organizer and asks him what progress he is making. Instead of being able to say that things are moving forward satisfactorily, he finds himself forced to report that he has met with certain unexpected reverses and that the plans which were agreed upon had been put into effect prematurely, with the result that certain unexpected changes in them would now be required. This, of course, is a



disappointment to everybody. The management is inclined to blame the organizer, and naturally insists that it should take a hand in formulating the new arrangements which apparently must be made. The result is that delay and recrimination ensue.

Under such conditions as these, much money will be spent in trying to set up a new organization, and when success does not seem to be forthcoming, the whole idea will probably be abandoned and the company will subside into its original plan of organization. There are certain companies, in fact, which have done this precise thing. To avoid such an eventuality requires, in addition to the hearty cooperation of the management and its financial support, an experienced organizer and a carefully prepared schedule of procedure.

**The Organizer.**—In employing a man to carry out the reorganization, it is important, first, to secure some one with the right qualifications, and second, to delineate his authority with great care. The organizer must possess the qualities which every executive should have, such as breadth of vision, leadership, judgment, ability to make decisions, and confidence in his own powers. His task requires a thorough knowledge of certain principles too simple for most people to comprehend. It calls, at the same time, for managerial ability of the highest order—the ability to know men and to be able to handle them, to be courteous and tactful, and at the same time to be firm. The organizer must know precisely what he wants and why he wants it. He must be able to persuade other people that he is right. Whether he is right or not, he must be able to win his point. Failure to do this soon demoralizes his whole campaign.

In addition, he should have in high degree the ability to analyze and to coordinate. It often requires an uncanny power of diagnosis to know why a certain plan is not bringing results in spite of an appearance of soundness. Oftentimes, however, a scheme which has all the apparent elements of success and which even may appear to be actually operating on a going basis will not produce the results which it is fair to expect. A situation like this calls for the highest degree of brain power on the part of the organizer. Unless he is able to cope with a condition of this sort his whole program is likely to fail.

The organizer may set up a beautiful organization framework; but unless he can make the various parts function in har-

mony with one another he has failed of his purpose. The ability to coordinate requires infinite patience and tact, particularly where some of the factions to be coordinated are still in a half-reluctant or even a hostile frame of mind.

The organizer will find that limitations of his own ability constantly stand in his way. To begin with, he will not be perfect as an organizer of marketing, nor will he have all the facilities or all the force which seem essential. Furthermore, it is probable that he will not be well acquainted with the problems of the particular company he is serving at the time. He will perhaps know little or nothing about the company's business, or its technology, or its customers, or its market, except what he has been able to learn through his own investigations.

The organizer will often have to face one fact which his antagonists will gladly point out, that he is not thoroughly familiar with the situation facing the company, and that he is not, therefore, completely equipped to deal with it. His only reply is to admit ignorance. It is fatal to make a pretense of having more knowledge than is actually possessed. After all, however, this should not be a serious difficulty, because men invariably respect anyone who is frank enough to admit his limitations. Furthermore, if the organizer is thoroughly conversant with the principles which he is trying to apply, and if he knows precisely how they should be applied, this is all that can reasonably be expected of anyone in his position.

**The Organizer's Authority.**—In making an arrangement for introducing a system of scientific marketing, it is important to establish the organizer's authority, for experience shows that unless this is done many complications will arise. It should be understood, therefore, and set down in writing, precisely what the organizer is expected to do and precisely what support he is to be given.

The management may, for example, make an arrangement with the organizer to proceed with the work. In the course of doing it, however, he finds it necessary to obtain certain assistance and cooperation from various departments of the business. Unless he is in a position to obtain this cooperation, his efforts will be hampered, if not stopped entirely. It may be better, however, to arrange that the organizer shall have, in the beginning at least, only one formal point of contact with the concern—that



is, through the management itself. Any requests or requisitions will, therefore, come through the management and be handed down to the department from which assistance is required.

The Sales Manager or other line executive should ordinarily be kept in his previous position, so that he may carry on the company's business in the old manner. He cannot be expected to do this and also to take an active part in the reorganization. It will be difficult enough at best to keep up the routine work of distributing the company's product while so many changes are going on.

It is on this account that it is a mistake for the regular executives to attempt to do the work of reorganizing, except under unusual circumstances. The work of reorganization would then be looked upon merely as a spare-time job, and the lapse of time required would be longer than there is a real need for. The actual money-saving would also be negligible. Finally, the plan would not be so thoroughly carried out.

**Dealing with Company's Executives.**—One of the most difficult tasks for the organizer is his relations with the executives of the company. Many of these men are egocentric, profoundly subjective, and possessed of overbearing faith in their own judgment. About their own business there are few things with which, in their own opinion, they are not intimately conversant. It is usually men of such caliber whom the organizer has to convince of the need of introducing methods of scientific marketing.

Patience, tolerance, and self-control are essential in dealing with such executives. Firmness and courage are also required; otherwise changes will be made in the organizer's plans which, though perhaps seemingly trifling, will prove to be out of keeping with the spirit of the entire undertaking.

In advertising, especially, the organizer is likely to encounter difficulties of this nature. Advertising men are constantly contending with clients who think they know how their products should be advertised, but who, as a matter of fact, know next to nothing about advertising. Advertising agencies are often blamed for the failure of campaigns for which they have not been responsible. Under such circumstances, it is necessary to make decisions as to whether to accede to demands which are unsound,



or to take issue with opponents, fighting any proposal which is not in accordance with scientific procedure.

The organizer frequently finds that the executives of the company are, for the most part, unable to envisage the principles which he is aiming to apply, and that their only objects are to obtain profits and power for themselves. They expect this organizer, through some magic short cut, to bring about a metamorphosis which will immediately increase their emoluments. They are, therefore, impatient of the labor which alone will make possible the evolutionary change upon which the company's survival will eventually depend. Unless the organizer is capable of coping with this state of mind, of sowing seeds of progress, and of cultivating them with infinite patience, it would be better for him not to undertake his task.

**The Reorganization Policy.**—The organizer should take pains not to introduce too many innovations at one time. He should begin in a gradual way, and not start at once with broad, sweeping changes which will upset the whole framework of the old organization. A few minor changes which work successfully, and which injure no one, are the best possible propaganda for the new method of operation. Such successes will win confidence for the new system, and will obtain supporters for it. The process of reorganization, however, will necessarily be slow. The old plan of operation, as before stated, must be kept going for a considerable length of time, that is, until the new one has been developed to the point where it will function successfully.

When the organizer is first employed, he should be commissioned to make an extensive study of the situation, and on the basis of this to render a report. This report should include:

1. A complete statement regarding the company and its marketing activities.
2. An analysis and interpretation of the situation.
3. A complete plan for reorganization, together with a detailed account of the manner in which the work is to be done, what steps will be taken, the order of each one of the steps, and the length of time which the whole undertaking will require.
4. An itemized budget of expense for each of these operations.

This report should then be discussed at length by the organizer and by the company's management, until a plan has been arrived

at which, beyond any reasonable doubt, can and will be carried through to a successful conclusion. This plan should, of course, be set forth in writing. It is important to prepare it carefully, since it is demoralizing to the personnel of the company to find itself undergoing a series of changes which later experience proves to be unsatisfactory.

A frequent report of progress should be made to the management. Naturally, the management will be anxious to know at all times what results are being obtained, and whether the plan is going through on schedule. If at the end of the time specified in the preliminary estimate the organizer has failed to reach the objective agreed upon, it will then be necessary for the management to replace him, or to take other action.

**The Preliminary Survey.**—As previously stated, before any changes are made, a preliminary study of considerable scope should be made. The organizer and the company itself should know exactly what the position of the company is in respect to its market, which will include the regular survey of the product, the industry, and competition. When this is done, the organization of the entire company should be examined.

The next step is to take account of the activities of everyone who is performing any marketing function, whether or not that individual is a properly accredited member of the present Marketing Division (or Sales Department). These facts should be graphically portrayed on an organization chart.

Next, a careful analysis of the work of each individual shown on the chart should be made, together with the approximate amount of time which he devotes to each duty. In other words, this means a job analysis on a basis of unit times.

The next step is to make a number of observations as to the times and costs of various marketing operations under the original régime. This is best done by studying the operations of individuals rather than of groups, although the latter may also be done. These studies will upon analysis usually disclose numerous wastes of time and expense and will suggest expedients for reducing wastes and increasing efficiency. An incidental advantage will be that these figures, together with various sales records, will serve as a basis for comparing the old method of operating with the new one after it has been installed.

If changes are to be made at a rapid rate, it is safe to say that



considerable additional expense will be incurred. On the other hand, if the task of reorganization is handled by a thoroughly experienced and able person, and there is not too much pressure brought to bear upon him to obtain speedy results, it is quite possible that the change can be made without any expense. In other words, the pecuniary benefits of reorganization, coming as the result of a gradual development, will more than offset the costs which are incident to making the necessary changes. If skillfully introduced, scientific marketing will sometimes pay its way from the start.

**Method of Procedure.**—The organizer should plan, first, to introduce those activities which are not at present regularly organized, and, second, when this has been done and he is dealing with the men in the line, he must introduce changes of a minor nature first to see how the men react, and to make them accustomed to a continuous process of development.

These minor changes should be the more simple and obvious ones, such as the introduction of various marketing standards which have proved successful elsewhere, the codification of standard-practice instructions, and the use of any suitable forms and charts to which there can be no reasonable objection and which will prove of considerable help. In other words, the organizer should use these preparatory steps partly for strategic purposes. They can be followed later by those of a more drastic nature, once he has obtained a firm grip on the situation.

In making any changes, of course, it is not advisable to suggest that these new expedients are experimental, or that some merely tentative measure is being introduced to determine whether or not a given plan can be made to work. It is best to give thorough consideration in advance to every method and to predetermine whether it is the right one. It should then be put into operation as complete and final; otherwise the effect upon the organization will be unfortunate.

The above procedure may not seem entirely scientific, but experience shows that the organizer must always give foremost consideration to the psychology of such situations. He must be thinking continually of the effect that his new moves are going to have on the personnel. The appearance of his actions is very important. Anything which does not *appear* sound should be avoided, even though there is no inherent objection to it. In



other words, the organizer's task is to be as diplomatic as possible and to forestall opposition rather than merely to fight it.

**The Staff Departments.**—In organizing a system of scientific marketing, there are certain advantages which are not present in the organization of production activities. This, paradoxically, is partly because marketing has little more than the semblance of organization at present. Marketing, in most companies, is amorphous: the process of integration has hardly begun. The organizer can accordingly take advantage of the fact that some of the activities which will be essential to his finally developed plan were not, under the original régime, provided for at all.

Thus, the main staff departments of research, training, and planning are usually non-existent except under a system of scientific marketing. These departments can thus be built from the ground up. As they gain strength they may be geared in gradually with the rest of the marketing operations. Since these groups did not exist before as separate entities, the organizer has a right to expect that his efforts will not be interfered with. He is not faced with the disagreeable prospect of having to tear down an old organization in order to build up a new one in its place.

The best plan is to start with the Research Department. The reasons for this are as follows:

1. Such a department, since its primary purpose is to gather information, will supply the organizer with those facts which are essential to his own operations, and thereby save the expense of his employing his own personal aides for this purpose.

2. Functionalized marketing operations occur in a regular sequence, and market research is the first step in that sequence.

3. In many ways, market research activities are carried on more advantageously when not too closely connected with those of the rest of the company. This gives the organizer an unusual advantage: he can create what in reality should be regarded as an integral member of the business without making the organization as a whole unduly conscious of what is going on.

4. The type of men who will be engaged for the Market Research Department are of the opposite type to those who may be expected to be found already in the Marketing Division. The new men, therefore, will serve as a leaven to the entire group.

5. The new Market Research Department will serve as an excellent training school and proving ground for men who will have to be provided for in connection with the program of scientific marketing.

**Obtaining Support for the System.**—Even while the staff departments are being set up and put into operation the organizer will come into contact with the other operating departments. One of his first duties is to make it plain, directly and by indirection, that it is his purpose to be of assistance to everyone connected with the company. He will, as soon as he begins to make good this promise, obtain as adherents some of the more desirable members of the group. These men will prove invaluable to him. He can confidently expect that he will make friends, as well as find opponents. He will and should have certain assistants who will work with him in carrying out his reorganization plan, and these men should be able to explain the principles and objectives which are being set up. The keynote of the whole system is that of singleness of purpose. This is based on the marketing objective which the company must adopt at the outset.

In the case of a certain company there was a general feeling in the sales force that the purpose of functionalizing marketing activities was to divest the Sales Manager of his authority. It was supposed that the General Manager was jealous of the Sales Manager, and that he took this means of obtaining evidence against him. Unless such rumors are immediately dealt with, there is great danger from them. It must be understood that the executive and the organizer and all in authority are in complete agreement.

One way to win men over to the new plan is to show them that they will make more money than under the old plan. The organizer should have it arranged so that he can increase the remuneration of men as and when they bring in the increased returns which are expected to result from the introduction of the system.

It is not to be supposed, however, that explanations or promises of higher pay will of themselves prove sufficient. The thing that really counts is showing better results than were obtained under the old plan. It is only by object lessons of this sort that real progress can be made in obtaining support for the system.



**Dealing with Obstructionists.**—In undertaking any reorganization, the most trying task before the organizer is that of coping with individuals who, from his point of view, are sheer obstructionists. These men are to be found in every commercial enterprise, perhaps for the reason that obstructionism, or something akin to it, is a necessary leaven for too much of certain other qualities. These men will oppose the efforts of the organizer partly because they fear he will bring injury to their own positions. Such men are usually low in ability, except of a certain sort, having attained their status in the company only after considerable jockeying and intrigue.

Since the organizer does not wish "pull" to govern the new structure which he is trying to build, and since ability is the essential quality which he requires in his new personnel, he is of necessity hostile to men of this type.

Friction ensues unless, of course, either one faction or the other obtains the upper hand. If the organizer is given complete authority, he may be able to keep obstructionists temporarily under control. If, however, they foresee such a situation, they will attempt to bring their political pressure to bear upon the organizer himself. This is a danger which he must constantly guard against, since the motives of such men are simply to further their own interests. As soon as they see any excuse for departing from the principles which he has installed, they will go counter to them, in the hope that the whole system will be set aside. It is, therefore, best to get rid of such men at the first convenient opportunity, rather than to attempt to reform them.

Men of this type have done a great deal to hinder progress in industry. They constitute a menace to business, but they are not to be ousted in a minute, because often they hold key positions. Also, they are masters of the art of controversy. They understand perfectly the trick of putting others in the wrong, while making themselves appear in the best light, especially when they are in the presence of their superior officers.

The situation is one which, to a large extent, appears beyond remedy. It is a necessary evil, which must be circumvented rather than wiped out. American business men criticize those of other countries for granting promotion and preference on the basis of seniority; but the situation in many American companies is not much better, since rewards here are to a great extent given to



men of political powers rather than on the basis of efficient performance.

Often the worst obstructionist in the company is its founder, or its head, or the man who has done the most to make it successful. Many such men think because they have brought the enterprise to its present state of usefulness that they and their ideas are essential to its lasting success. Such men think little of deciding offhand a question which cannot, without total disregard of scientific procedure, be settled without a great amount of investigation. Such high-handed decisions, though occasionally defensible, are likely, through the old timer's uncanny second sight, to prove nearer right than wrong, and hence, by befogging the issue, make the work of installing a scientific system extremely difficult.

**Reorganization and the Sales Department.**—The reorganization of marketing activities often results in considerable misunderstanding and ill feeling. There are sure to be some men who are, or who feel that they are, losers through the introduction of new plans. This is particularly true in the case of the Sales Department, where the manager is restricted to his proper functional line activities. This makes it all the more important that any new system should be studied out in detail before any move is made to put it into effect.

The change may result in the loss of some of the most valuable members of the organization unless it is handled with the utmost skill and diplomacy. However reluctant the management may feel at the possible loss of members of the Sales Department, once it has started the task of reorganizing, it must not falter. The Sales Manager should be given his chance to conform to the new system; if he is exceptionally able he may qualify for the position of Marketing Manager. But if he finds himself unable to agree honestly with the benefits to be derived from scientific marketing, some one should be found to take his place.

There is also the problem of dealing with the salesmen themselves. It is unfortunate that salesmen often prefer to keep their superiors and associates in ignorance of the facts which they obtain from their territories. This is the natural result of the selfish interest which any person has in keeping to himself facts which, if put into other hands, might weaken his position. This

is one of the first situations which is encountered when changing to a system of scientific marketing, and one of the most annoying.

The first step in dealing with this condition is to demonstrate to the salesman that facts and other assistance can be given to him as a result of the new system which were never available before. He must be shown that he is sure to be the gainer by the activities of his associates in the staff departments of the Marketing Division. He can then be induced, by degrees, to bring back and turn in the data required of him, and to discharge his other duties in accordance with the new policies. It should now be apparent to him that he is no longer in the position of a monopolist or the monarch of his territory.

**The Results of Scientific Marketing.**—Quick results from reorganization of marketing on a scientific basis must not be expected. Progress can be measured only in terms of gradual accomplishment. A reorganization in a small company, under favorable conditions, might be accomplished in one year; but this would be rapid time. In a larger company, especially one which had been marketing its product for a considerable period, two or three years would be required to make any great impression.

Patience is essential, coupled with a profound faith and optimism, despite discouraging events. The science of management has been an accomplished fact for several decades; but only now is it beginning to be understood by business men, and only as applied to production. Science may congratulate itself if it can extend its message to the minds of the majority of business men engaged in marketing, and accomplish this within the next ten years. Probably it will be another decade after that before these principles have been developed into a code of practice which will have been widely adopted and put into actual usage.

The need for scientific marketing is apparent; the abuses and wastes of the present system are evident. Those companies which are first to see in what direction the inexorable economic forces are moving (and there are already some far-sighted ones with such perception) will be the first to reap the benefit.

**Conclusion.**—This book has combined, in what may have proved to be a disconcerting way, a new view of the relation of each sales manager to the marketing function, and a statement of a plan of scientific marketing organization for the individual



corporation. The student who is won by the former subject may be indifferent to the latter. The sales manager or general executive who may find much to commend in the system of management finds himself, perhaps, doubtful about the generalizations in the first half of the book.

From the writer's point of view, however, the two halves of the book are not independent; they are interdependent, if rightly viewed, either by the economist or by the business man. For it is idle to consider the limits which economic necessity and creative intelligence are gradually forcing upon the operation of free competition, of *laissez faire*, or of uncontrolled monopoly, without at the same time considering how the individual company can profitably translate its view of these currently active tendencies into practice.

It has been the contention of this book that economic considerations, business efficiency, and social intelligence are dictating a saner, more scientific, more coordinated operation of the marketing function in our industries. This function, from the consumer's point of view, either by industries as a whole or by individual companies, manifestly requires better organization all along the line. The criterion of objectivity of demand entails an about-face in the whole view taken by business men of the nature of markets, the measurement of markets, and the creation of markets. The consumer is again on the way to being the center and loadstone of the producing process. And the death knell is therefore sounded of "high-pressure" selling, "go-getterism," "supersalesmanship," and every other scheme for dumping unwanted and unneeded goods on a defenseless public.

As population trends in this country become better defined, and as discovery of new natural resources becomes more gradual, forces making for a more organized and predictable marketing situation than today's seem sure to gain in power. The impact of these forces on individual companies is almost sure to be in the direction of a scheme of coordinated structure, policies, and relations such as is set forth in the second half of this work. The reader's agreement with this system is of less importance than his considered effort to see how the various trends in present-day relations of producer, distributor, and consumer will affect the organization of his own sales department. For affect them in some way they surely will; and that effect is likely to be adverse



to profits unless a deliberate attempt is made to work with and not against the economic forces which summon all concerned to this more scientific correlation of production energies to consumers' needs.

The lesson is clear that in the next fifty years survival and prosperity await only those business units which are producing in close relation to the needs of a market discovered, organized, and ministered to in accordance with scientific principles.

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